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The Presidency
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2030 NDP

ECONOMIC PROGRESS TOWARDS THE NATIONAL DEVELOPMENT PLAN’S VISION 2030

Recommendations for Course Correction

Released December 2020

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Department:
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2030 NDP

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We welcome written comments on this Report, which can be submitted to Mr. Ashraf Kariem at ashraf@dpme.gov.za It is recommended that comments be submitted before 22 January 2021 to enable their review and consideration by the current sitting of the NPC.

This Report is available at www.nationalplanningcommission.org.za/publications_reports

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Glossary of terms

Crisis: A stage in a sequence of events at which the trend of all future events, especially for better or for worse, is determined; a turning point. It indicates a condition of instability or danger, as in social, economic, political or international affairs, which leads to a decisive change.

Employment ratio: The number of people employed in the population, divided by the number of the working age population, aged 15 to 64 years old. It refers to the proportion of people that is working compared to the age group that could be working.

Dependency ratio: In this Report, it is the number of people employed in the population, divided by the total population. This is the number of people that depends on a single wage earner.

Gini coefficient: A measure of the deviation of the distribution of income among individuals or households within a country from a perfectly equal distribution. A value of 0 represents absolute equality. A value of 1 (or 100 if it is indexed) represents absolute inequality.

Global economic crisis of 2008: The global financial crisis (GFC) or global economic crisis (GEC) began in July 2007 when a loss of confidence by United States investors in the value of sub-prime mortgages caused a liquidity crisis. This resulted in the United States Federal Reserve Bank injecting a large amount of capital into financial markets. By September 2008, the crisis had worsened as the United States government allowed Lehman Brothers to collapse. Stock markets around the globe became highly volatile and crashed. Consumer confidence collapsed as everyone tightened their belts in fear of what could lie ahead.[1]

Population quintiles or deciles:
To evaluate distributional outcomes, data is analysed by income or expenditure quintiles or deciles. Quintiles divide the population into five equal groups, and deciles divide the population into ten equal groups.

Poverty lines: The food poverty line (FPL) is the Rand value below which individuals are unable to purchase or consume enough food to supply them with the minimum per-capita, per-day energy requirements for adequate health. The lower bound poverty line (LBPL) and upper bound poverty line (UBPL) are derived from the FPL as a base but also include a non-food component. Individuals at the LBPL do not have command over enough resources to purchase or consume both adequate food and non-food items and are therefore forced to sacrifice food to obtain essential non-food items.

Individuals at the UBPL can purchase both adequate levels of food and non-food items. The poverty lines are updated annually based on the Consumer Price Index (CPI). By 2019, the FPL, LBPL and UBPL were set at R561, R810 and R1 227, respectively.

Social wage: Publicly provided services that replace or subsidise day-to-day expenses such as housing, education and amenities, and thereby reduce the cost of living.

South African Multi-dimensional Poverty Indicator:
The Multi-dimensional Poverty Indicator (MPI) assesses poverty at individual or household level. If someone is deprived in a third or more of ten (weighted) indicators, the global index identifies them as 'MPI poor', and the extent – or intensity – of their poverty is measured by the proportion of deprivations they are experiencing. The South African MPI includes four poverty dimensions. These include health (nutrition and child mortality), education (years of schooling and school

[1] See http://lexicon.ft.com/Term?term=global-financial-crisis.

Glossary of terms

attendance), standard of living (fuel for lighting, heating and cooking, water, sanitation, dwelling type and assets) and economic activity. These measures are provided below:

Dimension	Indicator	Deprivation cut-off
Health	Child mortality	If any child under the age of five has died in the past 12 months
Education	Years of schooling	If no household member aged 15 or older has completed five years of schooling
	School attendance	If any school-aged child (aged seven to 15) is out of school
Standard of living	Fuel for lighting	If the household is using paraffin, candles, nothing or other
	Fuel for heating	If the household is using paraffin, wood, coal, dung, other or none
	Fuel for cooking	If the household is using paraffin, wood, coal, dung, other or none
	Water access	If there is no piped water in the dwelling or on the stand
	Sanitation type	If there is no flush toilet
	Dwelling type	If it is an informal shack, traditional dwelling, caravan, tent or other
	Asset ownership	If the household does not own more than one of the following: radio, television, telephone or refrigerator, and does not own a car
Economic activity	Unemployment	If all adults (aged 15 to 64) in the household are unemployed

Each of the above dimensions have an overall weight in the MPI of 25%, with the weights for each indicator apportioned accordingly. So, child mortality carries a weight of 25%, while years of schooling and school attendance each carry weights of 12.5%.

Tax buoyancy:
The percentage growth in tax collected relative to 1% gross domestic product (GDP) growth.

Unemployment rate:
The number of unemployed people (in terms of the official definition), divided by the number of people in the labour force. Officially, unemployment refers to those who have been actively searching for work in the past four weeks.

Low-income, middle-income and high-income economies:
As of 5 November 2019, low-income economies are defined as those with a gross national income (GNI), per capita, of US$1 005 or less in 2018. Lower middle-income economies are those with a GNI, per capita, of between US$1 006 and US$3 955. Upper middle-income economies are those with a GNI, per capita, of between US$3 956 and US$12 235. High-income economies are those with a GNI, per capita, of US$12 236 or more (World Bank, 2019)[2]. GNI is defined as the sum of value added by all producers who are residents in a nation, plus any product taxes (minus subsidies) not included in output, plus income received from abroad, such as employee compensation and income from property.

[2] World Bank, 2019. Accessed at https://www.worldbank.org/en/country/mic/overview#:-:text=The%20world's%20Middle%20Income%20Countries,%243%2C956%20and%20%2412%2C235%20(2018).

Abbreviations

ANA	Annual National Assessment
B-BBEE	Broad-based black economic empowerment
BEE	Black economic empowerment
BRICS	Brazil, Russia, India, China and South Africa
CAGR	Compound annual growth rate
CEO	Chief Executive Officer
COGTA	Department of Cooperative Governance and Traditional Affairs
CPI	Consumer Price Index
CWP	Community Works Programme
DBE	Department of Basic Education
DHET	Department of Higher Education and Training
DPME	Department of Planning Monitoring and Evaluation
EPWP	Expanded Public Works Programme
FIC	Financial Intelligence Centre
FPL	Food Poverty Line
GEC	Global economic crisis
GDP	Gross domestic product
GFC	Global financial crisis
GFCF	Gross fixed capital formation
GNI	Gross national income
HSRC	Human Sciences Research Council
IFF	Illicit financial flow
IMF	International Monetary Fund
LBPL	Lower bound poverty line
MPI	Multi-dimensional Poverty Indicator
MPRDA	Minerals and Petroleum Resources Development Act
MTBPS	Medium-term Budget Policy Statement

Abbreviations

MTEF	Medium-term Expenditure Framework
MTSF	Medium-term Strategic Framework
NCV	National Certificate Vocational
NDP	National Development Plan
NPA	National Prosecution Authority
NPC	National Planning Commission
OECD	Organisation for Economic Cooperation and Development
PIRLS	Progress in International Reading Literacy Study
PRASA	Passenger Rail Agency of South Africa
PSET	Post-school education and training
QES	Quarterly Employment Survey
QLFS	Quarterly Labour Force Survey
RAF	Road Accident Fund
REIPPP	Renewable Energy Independent Power Producer Procurement
SAA	South African Airways
SACMEQ	The Southern and Eastern Africa Consortium for Monitoring Educational Quality
SANRAL	South African National Roads Agency Limited
SARS	South African Revenue Service
SMME	Small, medium and micro enterprises
TCTA	Trans-Caledon Tunnel Authority
TIMSS	Trends in International Mathematics and Science Study
TVET	Technical and vocational education and training
UBPL	Upper bound poverty line
UIF	Unemployment Insurance Fund
UMIC	Upper middle-income country
UNDP	United Nations Development Programme
Unisa	University of South Africa

SECTION 1:

INTRODUCTION

1 Introduction

1.1 Background

The 1996 Constitution pledges to heal the divisions of the past and to establish a society based on democratic values, social justice and fundamental human rights. A commitment is made to improving the quality of life of all citizens and freeing the potential of each person.

Much has changed for the better since the apartheid era. The average annual rate of employment creation more than doubled in the period from 2001 to 2017, compared to the period from 1960 to 1993. Access to municipal services and housing for black African households has improved significantly: Between 1996 and 2015, 7.6 million more households were living in formal housing. Households with access to electricity increased from 76.6% in 2002 to 84.4 % in 2017, while those with access to sanitation rose from 60.7% in 2002 to 82.5% in 2017. Public sector infrastructure spending totalled R2.7 trillion between 1998/9 and 2016/17, rising by 5.2% annually in real terms. Most of that growth was seen over the past decade. School attendance rose from 91.3% in 2002 to 96% in 2017 and the proportion of learners paying no fees rose from 0.3% in 2002 to 64.8% in 2017. As a result, the educational attainment of youth today far exceeds that obtained by their parents, laying the ground for intergenerational class mobility. Poverty rates fell dramatically, from 51% in 2006 to 40% in 2015.

Some of these gains have been eroded in recent years but we should not lose sight of our potential to make progress in achieving our vision.

Yet, we remain a highly divided society. The ideals of the Constitution have not been fully realised when our society is still the most unequal in the world, when so many black South Africans still live in poverty, and when access to opportunity is still so skew that most cannot come close to achieving their potential.

Slow progress toward our Constitutional objectives effectively entrenches poverty and alienation with deep inequity in relation to the majority black population. The lived reality for the majority of black South Africans is still one of high unemployment, limited access to economic opportunities, and asset poverty. This poses challenges in achieving social justice and severely constrains the ability to raise living standards and make economic progress. If our people cannot achieve their potential, then neither can our country achieve its economic potential.

Global experience shows that it is possible to achieve significant structural change that sustainably elevates the quality of life. However, few countries have managed to do so. It requires significant and sustained commitment to credible policies and their consistent implementation over many decades. Success depends on commitment to strong institutions, capable government, investment in people and capabilities, and the widespread adoption of behaviours that reinforce the gains that have already been made. This is especially so in our context, with an economy that has an exclusionary default position that requires substantial transformation.

Concerns about slow economic and social progress since the global economic crisis in 2008 are now further exacerbated by the Covid-19 pandemic.

Attending to these concerns must be done with within the context of our history. South Africa has long been trapped in low growth, low employment, high inequality and poverty. Short periods

1 Introduction - *continued*

of improvement took place in the 1960s and 2000s, mostly in alignment with rising upswings in global commodity cycles. Gross domestic product (GDP) per capita growth has hardly expanded over the past half a century due to its stop-start-stop nature. The apartheid system was the polar opposite to any that could induce sustainable inclusive growth and it caused rising black African unemployment from the 1960s.

The National Development Plan (NDP), adopted by Cabinet and all parties in Parliament in 2012, set a course to break out of the historical low growth, low employment, high inequality and poverty trap and to realise a vision of shared prosperity by 2030. The NDP was drafted soon after the global economic crisis, with a view towards recovery and a longer-term virtuous circle of development. The National Planning Commission (NPC) has now prepared an assessment of economic progress towards targets set by the NDP.

While the new democratic government achieved significant improvements in employment, poverty and growth over the decade up to 2008, progress has stalled. There are many areas of successful investment and public delivery yet, the most important social and economic indicators reveal that – at best – the country has not made meaningful progress since 2008. At worst, there are indications that the economy has lost significant capacity. From 2016, total employment grew by less than one-third of the NDP target and in 2019 it declined. Progress in eradicating poverty has partly reversed.

If the NDP's interim targets had been achieved, each South African could, on average, have earned a cumulative R119 000 more by the end of 2019, the South African Revenue Service could have collected R1.7 trillion more in taxes (giving government substantially more resources to invest in development and much more fiscal space to deal with system shocks) and at least 3 million more South Africans would have been in employment.

The fact that we were not able to do so means that South Africa is being forced to confront the most significant global crisis of our age – the Covid-19 pandemic - from a severely weakened position.

Covid-19 threatens almost all aspects of the economy. It has revealed in great clarity the structural limitations on creating growth and employment and significant state capacity constraints. Had more progress been made in implementing the NDP and in realising its vision, South Africa would now have been able to deal with the direct impact of the pandemic on our lives and livelihoods more effectively. We would also be able to deal with the longer-term implications of the post-Covid-19 world in a more resilient manner, to the benefit of all South Africans.

Over the past decade, there have been clear signs of danger that South Africa could veer towards a downward spiral. Governance gaps have now spilled over into the central processes of raising and distributing public resources. We are now beyond the cross-roads: kickstarting the economy out of a stasis now seems like a relatively simple challenge. The Covid-19 pandemic has accelerated a downwards spiral, in an already vulnerable economy. We are in a vicious circle ensuing from a toxic confluence of factors, namely falling investment, further diminishing tax revenues, debt service costs that crowd out all other spending and thus constrained resources for investment in development. The results are falling employment and rising poverty and inequality.

1 Introduction - *continued*

This downward spiral must be broken.
The only way to break this fall is to firmly recommit to the goals of the Constitution. We must get onto a road to broad-based growth, employment and prosperity. There are countries that, at some point, struggled with stasis or a downward spiral but emerged successfully to achieve decades of growth and development. It is possible to break out. A capable state, effective governance of key state institutions, and fiscal resilience are foundations. There is no room for cynicism or prevarication about this objective. There is no example of a country that pulled out of such a downward spiral to achieve decades of growth without progressive strengthening of state institutions. Meaningful, committed partnerships in delivery of our top NDP objectives are also a necessary ingredient. All our collective energies must be trained on these most important foundational priorities of the NDP. Some of the critical actions taken on governance give new hope and are a watershed charting us back towards the NDP path. However, truly restoring credibility across multiple stakeholders will take time. It will require focused implementation of clear, systematic, concrete and measurable steps. A package of commitments made by key stakeholders needs to be made plain for all to see so that the responsible parties can be held accountable.

The longer we stay on our current path, the longer it will take to recover. Even before the Covid-19 pandemic, there was an urgent need to course correct. That course correction is now our only option. We must limit the impact of the pandemic on the poorest and most vulnerable South Africans, while also charting a transition to a post-Covid-19 economy and society.

1.2 Structure of the report

This report starts with a reminder of the NDP's proposals for the economy (section 2). Progress in our country's top priorities, namely employment, poverty reduction, and equity, are reviewed against the targets set in the NDP (section 3).

In section 4, the most significant contributors to that performance are reviewed. The review does not aim to be comprehensive. The objective is to shine a light on the most significant enablers or barriers to progress. Consideration is given to fiscal and financial sustainability, building the asset base with a focus on capital and on people, digital readiness, industrial dynamism, public employment, and state capability.

Finally, section 5 lays out the critical actions needed to break the downward slide, stabilise, and course correct toward the NDP aspirations. These are essential stepping stones for the more fundamental economic and social structural change required to achieve full employment, poverty eradication, and greater equity.

1 Introduction - *continued*

This review benefited from a series of reports produced by and for the NPC that focused on critical areas that affect the economy[3]:

- NPC position paper on the contribution of SOEs to Vision 2030: Case studies of Eskom, Transnet, and PRASA
- An outcomes framework to link SOEs to the National Development Plan
- Framework for the suitability of state-owned enterprises
- SOE institutional governance review
- Public infrastructure delivery and construction sector dynamism in the South African economy
- Education and Skills for the Economy and Links to labour Markets in South Africa
- Analysis of PSET Trends Towards NDP 2030
- Digital futures: South Africa's digital readiness for the Fourth Industrial Revolution
- A review of the NDP in meeting its labour market objectives
- National water security framework for South Africa
- NPC Economy Series: Energy
- Analysing the Impact of State Services on the Cost of Living for the Poor
- Research on the Limited Success of Entrepreneurial Activity by Locals in Townships and Rural Areas
- Youth Labour Market Transitions Report
- 2050 Vision and Pathways for a Just Transition to a low carbon, climate resilient economy and society

[3] These reports can be found at the NPC's website at this location: https://www.nationalplanningcommission.org.za/Publications_Reports

SECTION 2:

NDP PROPOSALS TO ACHIEVE FULL EMPLOYMENT, POVERTY ERADICATION AND GREATER EQUITY

2 NDP proposals to achieve full employment, poverty eradication and greater equity

The NDP charts a course towards a decent life for all South Africans by 2030, with full employment, greater equality, and the elimination of poverty. It offers a set of values, aligned to the Constitution, and gives guidance to policy-makers and civil society about what needs to be done to achieve that ambitious goal. The NDP proposes a development path that enables broader access to livelihood opportunities, either through employment or self-employment, on the back of a growing and more inclusive economy.

The NDP's proposals to promote inclusive growth focus on an integrated picture of South Africa's development path. Achieving higher and sustained economic growth is not simply a function of economic policy. Sustainable employment creation and shared prosperity substantially rely on creating an enabling structural environment for broader economic participation and strengthening investments in human resource development.

The NDP aims to build the consensus among South Africa's stakeholders on the following:

- A set of objectives of what we want to achieve by 2030.
- A long-term strategic framework to guide more detailed planning to make the best choices in the allocation of limited resources.
- An understanding of the key obstacles to achieving these objectives and how to overcome them.
- The contribution of government and civil society to ensure that the goals of the NDP are met.

While ten priorities are identified, the following three are positioned as being the most important:

- Raising employment through faster economic growth.
- Developing human capabilities through education, skills, innovation and social protection.
- Building a capable and fiscally-resilient state that is able to play a developmental, transformative role.

2.1 The policy stance to achieve full employment, poverty eradication and equity

In the realm of economic policy, the NDP states that full employment, poverty eradication, and equity could be achieved with the following:

A decent standard of living that is accessible to low-income and working-class households

- This requires an affordable cost of living, and that public services that underpin human resource development are accessible, affordable, and of a high quality. Most importantly, the cost of food, commuter transport, and housing must be affordable, while the quality of free or low-cost education and health care must be raised. This enables the broader population to participate, makes labour more attractive in new industries, and reduces the cost of doing business. The NDP argues that investment in human capabilities is the most important ingredient for achieving sustained inclusive growth and full employment.

2 NDP proposals to achieve full employment, poverty eradication and greater equity - *continued*

A labour market that is responsive to the challenge of simultaneously expanding employment opportunities in a growing, diversifying and modernising economy, raising living standards, and reducing inequality

This requires the following:

- Lifelong learning and career advancement
- A stable labour environment
- Strong dispute-resolution institutions
- Stable and constructive public sector labour relations
- Compliance with labour standards among employers, recruitment agencies and brokers
- Regulations and standards that enable compliance by small and medium enterprises
- Robust active labour market policies and labour matching
- Skilled immigration enabled to support growth

A space economy that integrates living and work critical to inclusive growth.

- If living and work are not integrated, the state needs to step in to address the cost challenges associated with these entrenched barriers to opportunity. Settlements and services need to be flexible to enable movement to work in different locations. Increased urbanisation and urban densification will be key to ensuring integrated spaces and equitable access to affordable, high-quality services.

A higher rate of investment

- A higher rate of investment is required. This needs to be more productively deployed, with higher levels of needed public sector investment serving to crowd in increasing private investment. Achieving this requires partnerships with the private sector, policy certainty, capable public sector institutions, and building confidence in the long-term growth of the economy.

An industrial base that is diversifying reduces resource-curse dynamics and encourages more labour-absorbing activities

- Critical factors to support this goal include the following:
    - Reduced cost of regulatory compliance, especially for small- and medium-sized firms.
    - Support for small businesses through better co-ordination of relevant agencies, development finance institutions, and public and private incubators. Reduced costs of and better access to financial services for small- and medium-sized businesses.
    - A firm commitment to public and private procurement practises that stimulate domestic industry and job creation.
    - The promotion of competition and action to reduce excessive industrial concentration where it holds back broader participation, innovation and growth.
    - Greater integration into the regional and global economy in a way that benefits growth, employment and transformation. Achieving growth in a small open economy such as South

2 NDP proposals to achieve full employment, poverty eradication and greater equity - *continued*

Africa's requires increased foreign demand so that companies can achieve economies of scale and scope. In addition, foreign exchange generated from exports will fuel South Africa's infrastructure development programme, and the expansion of its manufacturing base. Integration into the global economy will further enable competition and technology learning. As the country with the most developed industrial and financial sectors in the region, South Africa must play a more significant developmental role to promote regional integration. This is essential for South Africa's own growth path. The NDP proposes that South African exports grow by 6% annually in volume terms up to 2030, with non-traditional exports growing by 10% per annum. Intra-regional trade in Southern Africa should grow from 7% of trade to 25% by 2030. Intra-regional trade in Sub-Saharan Africa should grow from 15% of trade to 30% by 2030.

- Building on South Africa's endowments and competitive advantages, while laying a basis for an economy that is less resource-intensive, more knowledge-based, and technologically and digitally advanced. The focus is on eight clusters including:
  - Agro-industrial cluster
  - Minerals and metals cluster
  - General manufacturing
  - Construction and infrastructure cluster
  - The green economy
  - Finance
  - Retail and business services
  - Tourism and culture
- A larger and more effective innovation ecosystem closely aligned with firms that operate in sectors consistent with the growth strategy.
- An expanded skills base through better basic education, vocational training and higher education.

'Binding constraints' are addressed as an immediate priority

- This is the fastest way to kick-start economic momentum. These 'binding constraints' stop potential investment in its tracks, rendering long-term capital commitments impossible. They undermine confidence in the long-term future of the economy, and therefore have a broader impact on the cost of capital and serve to reduce economic potential. Some clear examples of these constraints include certainty about the availability of critical utility services, such as water and energy, and in licensing regimes and property rights. The mining charter, the Renewable Energy Independent Power Producer Procurement (REIPPP) programme and land are currently top of mind. Other examples are appropriate capacity across the public service to fulfil the state's role in the NDP.

Infrastructure that enables traditional and non-traditional activities to thrive

- The infrastructure programme must aim to stimulate the economy in the short, medium and long term. In the short term, it should stimulate construction and related inputs industries. More importantly, in the medium and long term, it must deliver efficient, competitive, financially and environmentally sustainable and accessible infrastructure to enable current

2 NDP proposals to achieve full employment, poverty eradication and greater equity - *continued*

and future-oriented activities. The emphasis must be on commercial transport, energy, water and telecommunications. Within this programme, the spatial planning processes to identify the type and scale of infrastructure required to attain spatial equity is critical. State-owned entities (SOEs) are central to the success of the infrastructure programme: they must have the appropriate capacity and governance structures in place to ensure that they are able to deliver fully on this mandate. Ownership and market structure must be modernized and made reflective of practices that drive competitive behaviours.

- There should be a more proactive and strategic approach to medium- and long-term planning that addresses the risks that climate change and other related resource constraints, such as water, will have on the economy. There should also be a commitment to approaches that are sustainable, low cost, high quality and fit for purpose.

Public sector employment that is arranged appropriately for service delivery

- Given the prominence of the public service in government budgets, it is essential that it contributes to greater state productivity and improved service delivery. Even small performance improvements could have a significant impact on economy-wide performance and productivity, and therefore on growth and employment. Two main issues are identified in the NDP:
    - There has been excessive hiring and salary increases in high-skill managerial and bureaucratic positions, and not all these positions have been filled by appropriately skilled persons who can contribute to achieving the organisation's goals. Consequently, not enough resources have been directed at hiring and remunerating personnel directly involved in service delivery. The lower grades are not utilised as they should be: lower-skill public sector salaries have been inflated to such an extent that there is very little hiring at that level, so that professional staff are not effectively supported. This system has supported the outsourcing of services. The NDP proposes a review of the current grading system, a better distribution of staffing to strengthen service delivery, a commitment to ensuring that the right skill is in the right job, and a greater commitment to performance across the public sector.
    - It is unlikely that the market will deliver full employment, even under the best conditions. The state will have to step in to create employment in a way that is sustainable and serves the long-term growth and development objectives of the NDP. Community-based services, through special employment programmes, offer the most opportunities in this regard. The NDP proposes that about half of all unemployed will eventually be absorbed into community-based Expanded Public Works Programme (EPWP)-type service jobs that are focused on deepening service delivery.

Macro-economic policy that creates a stable environment for investors and consumers

- South Africa walks a macro-economic tightrope. Unlike many other developing economies, South Africa has a strong fiscal system in relation to tax collection, debt management, and resource allocation through the budget. This is a central instrument for driving economic development and redistribution. However, South Africa's macro policy is constrained by extremely low saving rates, a small base of taxpayers, low growth rates, an anaemic export profile, and a minerals economy dynamic that induces volatility. This restricts the country's ability to borrow and limits the availability of discretionary expenditure. These limitations have become even clearer in recent months.

2 NDP proposals to achieve full employment, poverty eradication and greater equity - *continued*

- However, this need not be true forever. Sustained commitment to structural improvements that encourage business entry and expansion, rising exports and more employment will ultimately create more macro-economic space. The NDP states that structural improvements at the sector level will create more space for macro-economic policy. For instance, if supply constraints are reduced (electricity and water are available and reliable, mineral and agricultural property rights are certain, skills supply is as needed, commuter and commercial transport is efficient), and there is investment, then macro stimuli will lead to economic expansion and not just inflation.
- The pathway to that future requires a sustainable macro-economic policy that creates a stable environment for investors and consumers. It should be orchestrated to enable both micro-economic and social transformation.

2.2 The behaviours that need to underpin the NDP

The NDP proposes that certain behaviours are needed to drive sustained and inclusive growth. In this economic report, we are more assertive in expressing the NDP's guidance, not only on what needs to be done but also on the behaviours that are required to achieve its goals. These behaviours represent the spirit of what is meant to be achieved. At the current junction, the NPC proposes that a clear commitment to the NDP's proposals on governance be given top priority.

- **The policy and regulatory environment must be shaped in a way that is conducive to competition, market access, investment, global integration, and the stimulation of new activities that enable movement up the value chain, among others.** The approach to shaping policy and regulation needs to be credible if market actors are to respond as intended. This means that it needs to be consistent, stable, just, fair and transparent across all the different state agencies and spheres. Policy and regulatory changes should be made gradually and in ways that enable rational and long-term decision-making about investment and operations.
- **The distribution of property, assets and opportunity is extremely unequal, and must be addressed.** The policy approach should be consistent with the promotion of equity and economic competitiveness, and not of rent-seeking. Moreover, it should be fair, just and transparent, promoting economic growth and investment across different state agencies and spheres of government.
- **The state should seek to reduce the cost of doing business and the cost of living.** At the least, the state can address cost drivers under its control, such as those related to administered pricing, infrastructure, regulations, and social wage programmes. It can also regulate for more lively competition and eliminate collusion.
- **Demonstrated and sustained commitment is needed to drive performance and excellence, accountability and consequence in the state and public service, including in our state-owned enterprises.** Leadership requires more than the minimum application of rules – it should guide us to the highest standards.
- **The whole of society should be committed to high ethical standards.** The NDP makes the point that: "The state sets the ethical bar for society as a whole. If corruption is seen as acceptable in government, it will affect the way society conducts itself. This makes it even more important that government acts to address the high levels of corruption in its ranks." In the context of high inequality, corruption undermines our fragile social contract. As a reminder, we further quote from the NDP:

2 NDP proposals to achieve full employment, poverty eradication and greater equity - *continued*

The structure of the economy is unjust, historical inequities and new forms of empowerment that have benefited politically connected individuals fuel a culture in which corruption thrives, both in government and in business. These underlying social phenomena must be addressed as part of the fight against corruption.

Political will is essential to combat this scourge. Political will is measured by assessing the amount of money spent fighting corruption, the legal arsenal that corruption-busting institutions have at their disposal, the independence of anti-corruption authorities from political interference and the consistency with which the law is applied. Being soft on smaller cases, or unusually tough on corruption involving political opponents, implies inconsistency.

In addition to political will, corruption must be fought on three fronts: deterrence, prevention and education. Deterrence helps people understand that they are likely to get caught and punished. Prevention is about systems (such as information or audit) that make it hard to engage in corrupt acts. The social dimensions of corruption need to be tackled by focusing on values, through education.

- Since the issuing of the NDP, **the NPC has not communicated forcefully enough on the need for better planning and for policy continuity.** South Africans understandably take pride in the resolution of crises but ultimately the aim should be to mitigate risk and avoid self-inflicted crises. There are external forces, such as those related to global markets, which cannot be controlled. However, many of the critical risks facing South Africa are domestic in origin, and controllable. Those matters that are within our control, and particularly those that are delivered directly through government and related institutions, should not be a source of instability, uncertainty and growth strangulation, no matter the scale of the external factors.
- **Sustaining momentum will require driving a 'common purpose'.** This is the drive to greater social cohesion and addressing the challenge of a divided society. A recommitment to our mutual interest and a social contract is essential to achieving NDP 2030, now more than ever. There must be a sense of ownership and responsibility across all sections of society. A clear hierarchy of interests and non-negotiables will underpin successful institutional transformation.

2.3 Meeting the goals of the NDP requires the solid foundation of a capable state

The state is central to achieving many of the goals of the NDP. And there is thus a direct link between state capability and outcomes such as employment, poverty and equity. The main characteristics of a capable state are:

- Organisational structures that are aligned with strategic goals
- The right person with the right skills in the right job
- Operational processes and procedures that create efficiency and cost-effectiveness
- A political-administrative interface that promotes effective performance management and reduces adverse political interference
- A governance structure that creates transparency and reduces the misuse of public resources

2 NDP proposals to achieve full employment, poverty eradication and greater equity - *continued*

The NDP sets out a clear set of proposals for how to achieve each of the components of a capable state. To date, very few of these proposals have been implemented. The level of state capability has deteriorated, rather than improved. This deterioration poses the single most important threat to achieving the NDP's goals. This report makes clear that building state capability is the most critical commitment that can be made to breaking our fall.

- The NDP 2030 proposes a vision for shared prosperity, where there is full employment, the eradication of poverty, and greater equity.
- Achieving this vision requires sustained commitment by all stakeholders to effect structural change.
- The NDP is a development plan and achieving our economic targets relies on delivery in the economic, social and civic realms.
- This report communicates how policy should be framed and implemented.
- This is as important, if not more so, than the specific recommendations on what needs to be done. This includes the commitment to governance, leadership, accountability, performance, high ethical standards, policy continuity as well as finding common purpose and strong partnerships.

SECTION 3:

PROGRESS MADE TOWARDS THE NDP'S VISION 2030: FULL EMPLOYMENT, POVERTY ERADICATION AND EQUITY

3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity

The NDP's main goals are full employment, poverty eradication, and greater equity. We cannot afford to achieve other targets but not succeed in attaining these top three goals. This is true, even in the short term. It will take generations to fully address South Africa's legacy of apartheid, and we cannot indefinitely wait for a trickle down to potentially lift us up. The NDP frames a vision for how these top three priorities can be meaningfully and sustainably addressed.

3.1 Employment

The NDP sets a target of reducing unemployment from 25.4% in 2010 to 20% by 2015, 14% by 2020 and 6.0% by 2030. Achieving these goals would have entailed the creation of 2.2 million jobs between 2010 and 2015 at an annual average of 436 000, on the back of an average GDP growth rate of about 4.6% per annum. Between 2015 and 2020, the average rate of job creation should have risen to 505 000 per annum creating an additional 2.5 million jobs. Between 2020 and 2030, an acceleration of the average GDP growth rate to 5.3% per annum should have given rise to a further 6.3 million jobs. Public works programmes and state-funded community care jobs were designed to play a supportive role in the pursuit of these targets, reducing reliance on the labour market and compensating for shortfalls in the required rate of economic growth arising from cyclical downturns and economic shocks. They were also designed to assist in making the economy more productive, by raising the skill levels of participants and freeing resources that could be used in other areas.

Instead, unemployment rose from 24% to 29% of the labour force between 2010 and 2019. What happened?[4]

Table 1: NDP employment targets relative to actual performance

Indicator	2010 (Base-line)	2015		2019		2020	2025	2030
		Target	Actual	Target	Actual	Target	Target	Target
Unemployment rate (official)	24.9%	20.0%	25.4%		28.7%	14.0%	8.6%	6.0%
Employment (million)	13.8	15.8	15.7	17.8	16.3	18.3	21.2	24.7
Employment growth relative to 2010 baseline (million)	-	2.0	1.9	4.0	2.5	4.5	7.4	10.9
Gap between target and actual employment (million)	-		-0.1		-1.5			
Average annual employment growth in employment	-	335 000	325 000	398 000	256 000	410 000	466 000	517 000

Source of data: NDP[5], Statistics South Africa Quarterly Labour Force Survey, 2020

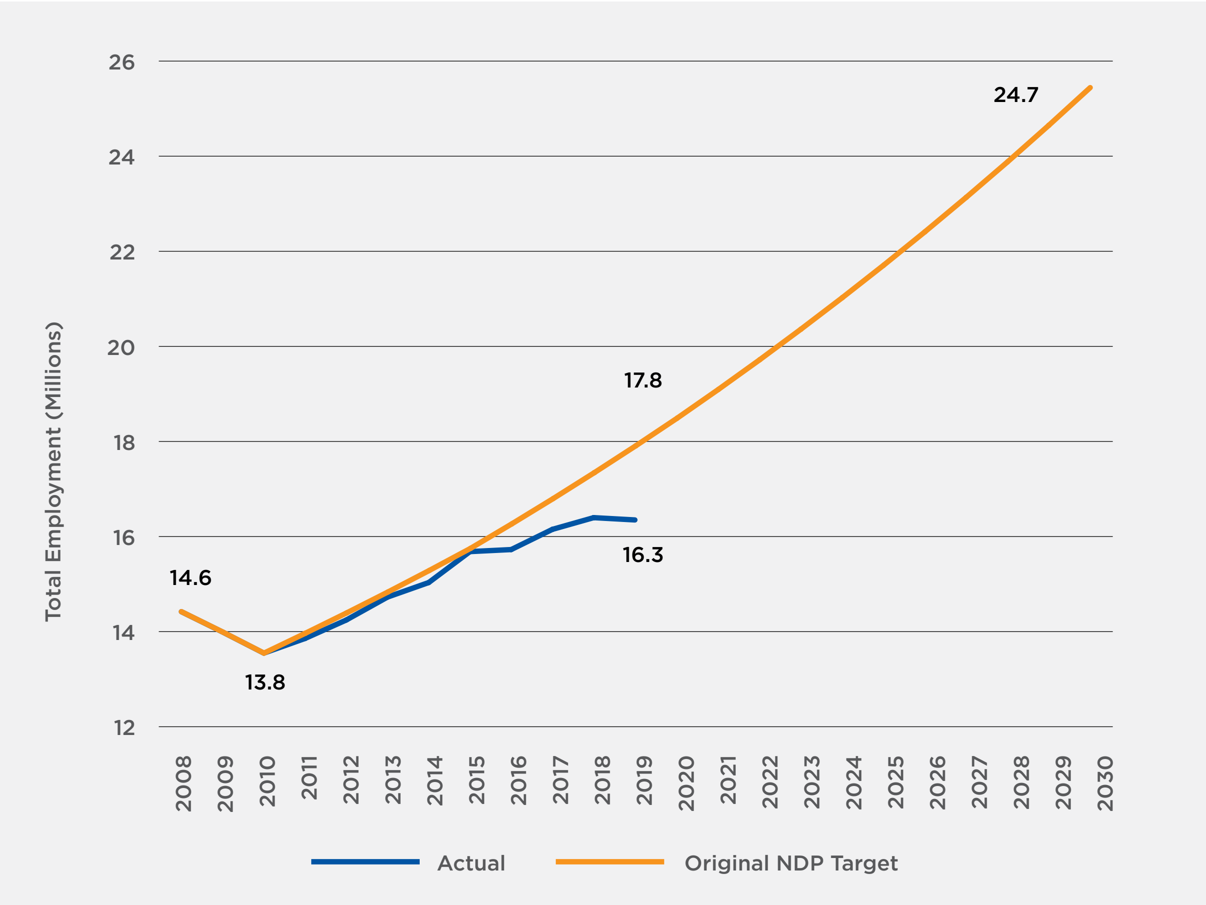
[4] The Covid-19 pandemic health response has led to significant declines in employment over the course of 2020 and may lead to permanent job loss in the medium term (Altman, 2020). Employment was already declining prior to the Covid-19 pandemic and this Report focuses on the underlying trends and responses for course correction. Recommendations are also made in respect of protecting employment over the course of the pandemic.

[5] The NDP does not stipulate each of the interim targets. They have been estimated using constant average annual growth rates

3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

While the target for total employment growth by 2015 was almost reached, the gap between what the NDP wanted to achieve and actual performance has widened since then. By 2019, total employment was 1.5 million below what was required to be on-track in meeting the NDP Vision 2030 target, as reflected in Figure 1. The average annual growth in employment between 2010 and 2019 was 256 000 compared with an NDP target of almost 400 000 a year. This translates into achieving only 64% of the additional employment targeted by the NDP.

Figure 1: NDP employment targets relative to actual performance



Source of data: NDP, Statistics South Africa Quarterly Labour Force Survey, 2020 via Quantec.

The composition of employment is also a concern, with regression on some significant goals over the past decade. The Covid-19 pandemic health response is further deepening the regression in all of these areas.

- Deindustrialisation has accelerated. Prior to this period, manufacturing employment grew but the proportion of people working in that sector fell. This is a common challenge in middle- and upper-income economies globally. In 2008, 14% of employment was in manufacturing. By 2019, this had fallen to 9%. Over this same period, manufacturing employment fell by 313 000, in line with poor output performance. As reflected in Figure 2, the main sources of employment growth were financial services and community, social, and personal services.

3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

- Small business accounts for a smaller share of total employment, falling from 64% in 2008 to 55% in 2015 (Trade & Industrial Policy Strategies 2016).
- Youth employment has stalled. Between 2015 and 2019, people in the 15 to 24 and 25 to 34 age groups were the only ones to experience a decline in total employment, with a combined fall of 355 000. Over the same period, the working age population falling within these age groups increased by 600 000. Over the 2008–2016 period, almost 1.3 million jobs were created. Those aged 15 to 24 lost 335 000 jobs between 2008 and 2012, with no subsequent recovery. Those between the ages of 25 and 34 lost 187 000 jobs in the first period, and just barely recovered by 2016. Over this period, the labour force of 15- to 34-year-olds expanded by 1.2 million, so youth unemployment rose significantly. In 2019, 57% of people in the 15 to 24 age group and 35% of those in the 25 to 34 age group who actively looked for employment were unable to find work. All net job creation went to those over the age of 35, with about 1.57 million jobs created, compared to labour force growth of 2.9 million for 35- to 64-year-olds. This is shown in Figure 3. This does not mean that no jobs were created for young people but rather that employment fell for them overall.
- By 2019, 89% of all unemployed were black African, which was higher than their share of the labour force (79%). The official unemployment rates across different races ranged from only 7% for Whites to 12% for Indians, 23% for Coloureds, and 40% for black Africans. While this situation has its origins in the 1960s and 1970s when unemployment accelerated for the black workforce, and already exceeded 20% by 1978 (Bell, 1984), it has continued to deteriorate since then. The volatility in employment has almost completely been felt by black African workers, who accounted for 84% (668 000) of the jobs lost between 2008 and 2010, and for more than 100% (2.6 million) of the jobs gained between 2010 and 2019[16].

  Strangely, the rise in employment for black African workers may help to explain why unemployment rates rose, as many discouraged workers re-entered the labour force over this period. Black African labour force participation rates rose from 52.9% in 2010 to 58.3% in 2019, far higher than that expected over this period in the NDP[7].

Raising the economic participation of the working age population is the NDP's top priority and some progress was made in this regard. The labour force participation rate, which measures the proportion of the population that is active in the labour market, increased from under 56% in 2010 to close to 60% in 2019. This is almost in line with the NDP target and moves South Africa closer to the global average of around 62% (ILO, 2018). However, there are still racial and age dimensions to unemployment that mean that we do not have a shared national experience of the pain and frustration caused by a persistent inability to find employment. This flows through to our experience of both poverty and inequality.

The link between higher rates of economic growth and expansion in employment is reflected in the fact that between 2005 and 2008, the economy averaged real economic growth of 4.7% a year and total employment increased by 2.5 million at an annual rate of 826 000. Between 2010 and 2015, real economic growth averaged 2.2% a year and total employment rose by close to 2 million at an average annual rate of 391 000. From 2015 to 2019, average economic growth

[6] There was a decline of 221 000 in the number of White people employed over this period (2010 – 2019)

[7] The NDP specifically targets an increase in labour force participation rates (LFPR), aiming for 65% by 2030. The LFPR in South Africa is especially low amongst the black African workforce. In 2019, the LFPR for Whites was 67.8%, as compared to 58.3% for black Africans. This is the result of discouragement in a context of very high unemployment rates for black Africans.

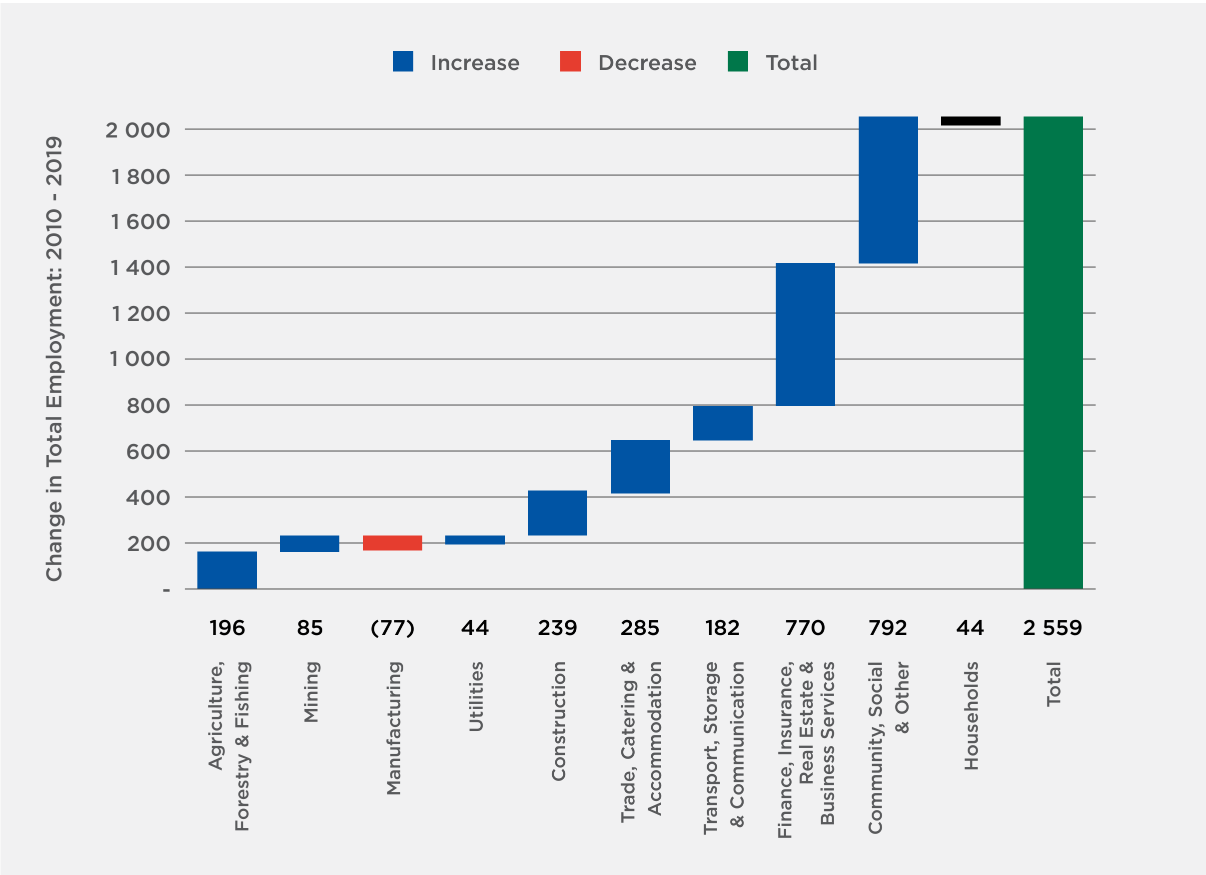
3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

plummeted to 0.7% a year, and total employment only increased by 609 000 at an annual average of just 152 000.

Many would be surprised that the rate of job creation between 2010 and 2015 was relatively robust and created close to 2 million jobs, at a rate of 391 000 per annum. This seems inconsistent with the lack of improvement in unemployment rates. It must, however, be remembered that about 1.1 million jobs were lost in 2009 and early-2010. In this context, it is not unusual for employment to bounce back. Employment reached a high of 14.8 million by the fourth quarter of 2008 and only returned to the same level by the second quarter of 2013.

The employment ratio, which measures the share of employed people in the working age population, is an important measure of welfare (see Table 2). In terms of the NDP targets this ratio was meant to rise from 41.9% in 2010 to 43.8% by 2015 and 46.9% by 2020. It rose to 43.7% in 2015 but has subsequently decreased back to 42.5% in 2019.[8]

Figure 2: Changes in total employment by sector, 2010 to 2019

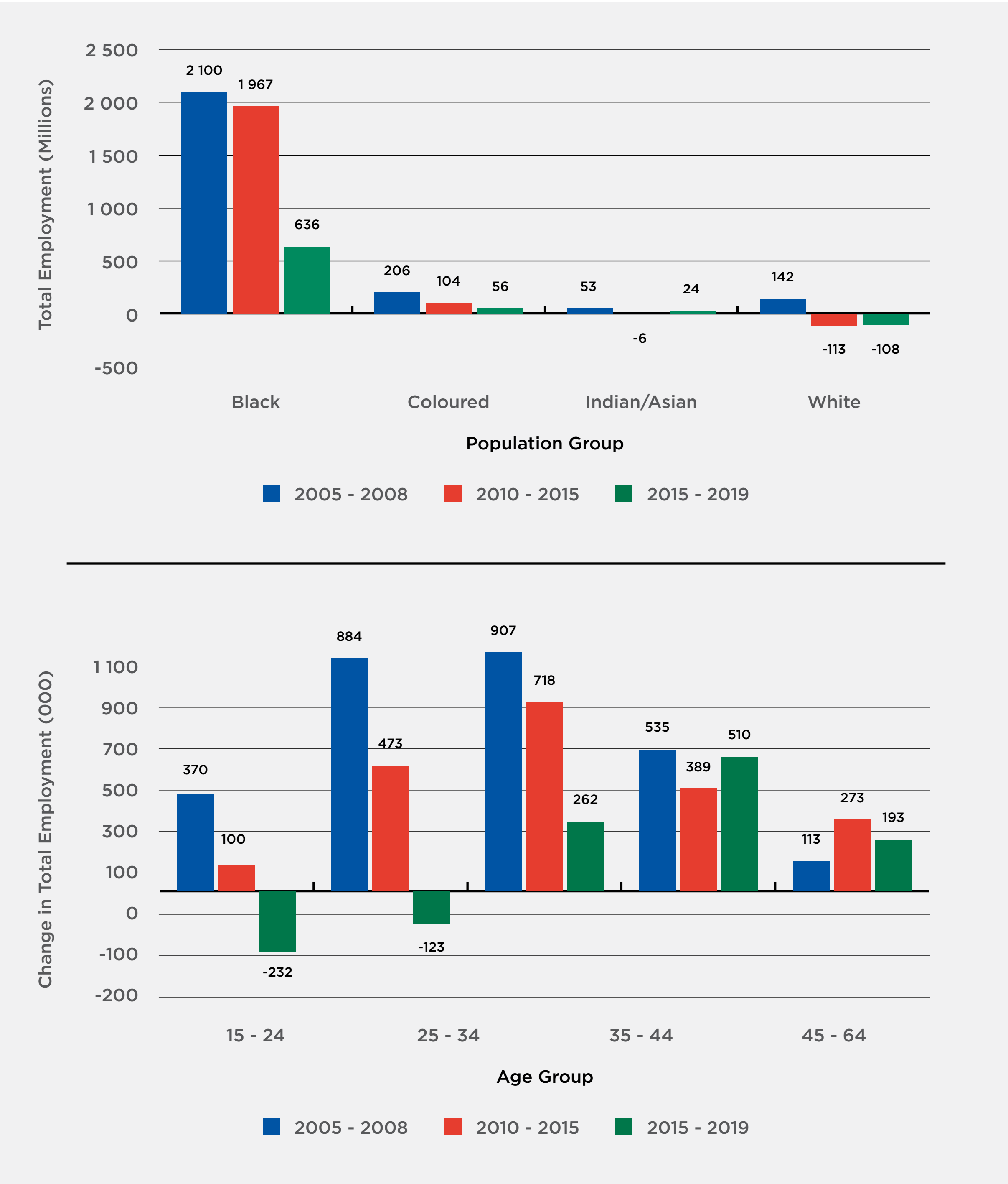


Source: Statistics South Africa Quarterly Labour Force Survey, 2020 via Quantec

[8] In the context of extremely high unemployment, the unemployment rate can be a misleading statistic. This is because it is a function of the number of unemployed and the number of people who are participating in the labour market. The increase in the unemployment rate in 2017 is partly related to a rise in labour force participation. The measure of the number of the working age population who are employed is therefore a more stable indicator of welfare. The NDP proposes that the employment ratio rises from 41.3% in 2010 to 61% by 2030. The 2030 target is revised to 52.4% as the working age-population is growing faster than expected. Appropriate interim targets for 2020 and 2025 are about 47.3% and 49.8% respectively.

3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

Figure 3: Racial and age dimensions of changes in employment



Source: Statistics South Africa Quarterly Labour Force Survey, 2020 via Quantec.
**Note: 2005 data derived from a different statistical release – the bi-annual Labour Force Survey*

3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

Table 2: Other employment related NDP targets contrasted with actual performance

Indicator	2010	2015		2020		2025	2030
	(Baseline)	Target	Actual	Target	Actual*	Target	Target
Labour force participation rate[9]	55.7%	57.9%	58.5%	60.2%	59.6%	62.5%	65.0%
Employment ratio[10]	41.9%	43.8%	43.7%	46.9%	42.5%	55.5%	61.0%
Unemployment rate (official)[11]	24.9%	20.0%	25.4%	14.0%	28.7%	8.6%	6.0%
Employment dependency ratio[12]	3.7	3.4	3.5	3.0	3.6	2.8	2.5

*Source of data: NDP[13], Statistics South Africa Quarterly Labour Force Survey (2020). * Reflects 2019 performance*

The sector composition of employment growth has also been unbalanced. Of the 2.6 million additional people employed between 2010 and 2019, 11% were in the primary sectors, 8% in the secondary sectors (with manufacturing employment contracting by 77 000 over the period) and the remaining 81% in the tertiary sectors.

Given this performance, can the NDP's employment targets be met by 2030? The rate of job creation was close to the NDP's target for 2010 to 2015 but considerable ground has been lost since then. The NDP targets rely on a sustainable, employment-generating growth path, and that is not in evidence.

After an initial bounce back, employment growth has fallen to 41% of the targeted annual rate. The underlying employment and output trends also point to a lack of dynamism that would drive an upward trajectory.

The Covid-19 pandemic will push us further off course. The economy is likely to contract by at least 7% in 2020, causing employment to fall by more than a million jobs. Some estimates point to the potential for permanent job losses between 200,000 and 900,000 (Altman, 2020). The Covid-19 health response specifically attacks employment in the following ways:

- The special character of the Covid-19 health response is that it aims to limit labour-using industries that happen to also have significant supply chains such as tourism.

[9] The proportion of the working age population that is active in the labour market (i.e. employed or actively seeking employment)
[10] The number of people employed as a share of the working age population (15 – 64)
[11] The people of working age (15 to 64) who are unemployed and actively seeking employment as a proportion of the economically active population
[12] The average number of people depending on one wage earner
[13] The NDP does not stipulate each of the interim targets. They have been estimated using constant average annual growth rates.

3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

- It will likely accelerate structural change towards digitisation and reduced use of labour in the production process.
- The movement of people is constrained locally, regionally, and globally.

This increases the urgency of measures to contain Covid-19 outbreaks while at the same time implementing critical policies to promote inclusive growth on a path towards the NDP Vision 2030.

Specific recommendations aimed at mitigating these impacts are offered in section 5.3.1.

3.2 Poverty eradication

Income poverty is far too high in South Africa. While poverty rates fell substantially over the 2000s, there has been no measured improvement since 2011, and there are signs of regression in some indicators. Table 3 shows the trends in a range of poverty indicators between 2001 and 2015.[14] In 2006, 28.4% of the population fell below the food poverty line (FPL), which means they could not afford a basic basket of food required to meet the minimum daily energy intake. There was a significant improvement by 2011, falling to 21.4% but the share of those below the FPL rose again to 25.2% in 2015. The persistence of deep poverty is most likely due to slow job creation, rising food prices, and rapid increases in utility costs that have outpaced income growth. There has been greater success for households in the next tier, with significant reductions in the proportion of the population falling below the lower-bound poverty line (LBPL) and the upper-bound poverty line (UBPL). In 2006, 51.0% and 66.6% of the population fell below the LBPL and UBPL, respectively. By 2011, this fell to 36.4% and 53.2%, respectively. To put this in numbers, almost 2.3 million people rose above the LBPL between 2006 and 2015 (Sulla and Zikhali, 2018).

The depth and extent of poverty differs substantially by population group. Between 2006 and 2015, poverty rates for black Africans fell from 60% to 47%, from 36% to 23% for Coloureds, from 5% to 1.2% for Indians and 0.6% to 0.4% for Whites. The rate of change varied dramatically too, where black African and Coloured poverty rates fell by 21% and 32%, respectively. In 2015, 49% of black African women lived in poverty as compared to 45% of black African men (Stats South Africa, 2017).

The NDP aims to see the full population living above the LBPL by 2030. The figures for 2015 show that, while millions have risen above the poverty line, the improvement is not sufficient. There has been no improvement in the proportion of the population falling below the LBPL since the NDP was published, and there is likely to have been a reversal of gains in recent years. A commitment to turning around these reversals on poverty eradication will be even more important in the context of the Covid-19 pandemic.

[14] Statistics South Africa (2017) compares poverty data from two surveys: the Income and Expenditure Survey and the Living Conditions Survey. The figures for 2006 and 2015 are comparable as they are sourced from the same survey. The figures for 2011 are indicative of a mid-point, as they are from a different survey. Small percentage movements do not necessarily reflect a real improvement or deterioration.

3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

Table 3: NDP poverty elimination targets and outcomes

NDP target	2006	Baseline (2011)	2015		2020	2025	2030
			Target	Actual	Target	Target	Target
Percentage of the population living below the food poverty line[15] (FPL)	28.4%	21.4%	16.9%	25.2%	9.1%	3.5%	0%
Percentage of people living below the lower-bound poverty line[16] (LBPL)	51.0%	36.4%	28.7%	40.0%	19.2%	9.6%	0%
Percentage of people living below the upper-bound poverty line[17] (UBPL)	66.6%	53.2%	N/A	55.5%	No target specified		
Percentage of people classed as poor using the South African multi-dimensional poverty index (SAMPI) headcount	17.9 % (2001)	8.0%	N/A	7.0% (2016)	No target specified		

Source: All actual figures are sourced from Statistics South Africa 2019. NDP target values between the baseline and 2030 were extrapolated from the baseline.

[15] This refers to the amount of money that an individual needs to afford the minimum required daily energy intake. This is also commonly referred to as the "extreme" poverty line. In 2019, the food poverty line was R561 per person per month.
[16] The lower-bound poverty line (LBPL) is calculated from a set of reference households whose total expenditure is close to the food poverty line and who are therefore forced to live on "survival foods" and to sacrifice some basic food-needs in order to meet their non-food requirements. In 2019, the LBPL was R810 per person per month.
[17] The upper-bound poverty line is calculated from a set of reference households whose food expenditure is close to the food poverty line. Their average expenditure on non-food items is added to the value for the food poverty line to derive the upper-bound poverty line. In 2019 the UBPL was R1 227 per person per month.

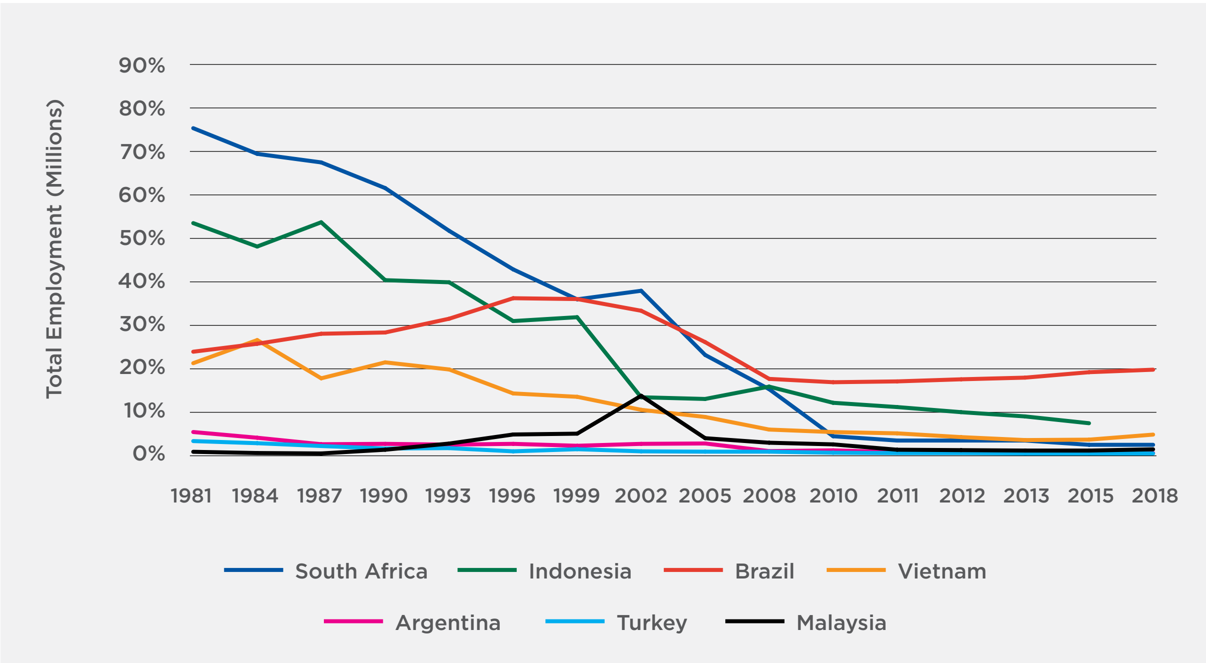
3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

According to World Bank data, 19.5% of South Africans were trying to survive on the equivalent of $1.90 per day in 2018 (adjusted for purchasing power parity). This is reflected in Figure 4. While this represented a significant reduction from the equivalent share in 1996 (36.6%), it still compares poorly with most other countries, and represents an increase over the 16.5% of 2010. Globally, the proportion of the population living below this poverty line dropped from 29.5% in 1996 to 10% in 2015. The average for upper-middle income countries declined from 29.7% to 2.2% over a similar period, while that of lower-middle income countries dropped from 39% to 14.2%.

Earlier progress was substantially explained by the expanding distribution of social grants since 2001, and to a smaller extent, by job creation and urbanisation.

Urban migration has gone some way to reducing poverty. By moving from rural to urban areas, an estimated 385 000 citizens were raised above the poverty line between 2008 and 2014 (Turok and Visagie, 2017)[18]. One-third of urban households fall into the poorest 40% of households as compared to 57% in former homelands. However, migration has resulted in a significantly larger number of poor living in urban areas and, according to the South African multi-dimensional poverty index, the intensity of poverty (measured by the number of dimensions in which our people are deprived) is often greater in urban areas. Urbanisation is a key factor in increasing access to services, and it is generally more efficient to provide services in densely populated urban areas. However, their provision and cost depend on functioning and financially sustainable local municipalities.

Figure 4: Proportion of the population in poverty (less than $1.90/day) – country comparisons



Source: PovcalNet, 2020

[18] The total population grew by 38% between 1996 and 2016. Gauteng expanded by 70% to over one-fifth of the population and the Western Cape and Bojanala district in the platinum belt of North West grew by almost 60% (TIPS, 2017).

3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

Areas of urban agglomeration are usually important for employment creation, as they bring business, workers and services closer together. South Africa's eight metropolitan municipalities accounted for 55% of the national economy, 52% of all formal and informal employment, and 42% of the total population in 2019. Over 90% of jobs created between 2015 and 2019 were found in metropolitan areas. This accounts in part for the significant in-migration to metropolitan areas from other parts of the country.

Typically, few wage earners in low income communities support a larger number of dependents. Their earnings are spread very thinly. This pressure is far greater in the former homelands. In urban areas, 14% of households earn less than R2 000 per month as compared to 46% of households in former homelands (TIPS, 2017). The NDP aims to reduce the number of people depending on one wage earner to 2.5 by 2030. This dependency ratio fell from 4.0 to 3.5 between 2010 and 2015, which was on target. However, it increased again to 3.6 by 2019.

Reducing the cost of living for low income households is an important piece of the poverty eradication puzzle. Most critically, food accounts for 30% of expenditure in the poorest 40% of households. Efforts to eradicate poverty are hampered by food prices that rose by 193% over the period from 2002 and 2019, as compared with overall increases in the price of the consumer basket of 129%. The NDP advocates an approach to household food and nutrition security that involves both market and non-market interventions.

Going forward, a complement of strategies will be needed, including:

- Rising employment: lower-income households have very few working members.
- An affordable cost of living for low-income households: income poverty would be lower if the cost of goods and services bought by low-income households was stable and more affordable. This includes electricity and water costs. This can be addressed through regulation and competition, as well as improved service delivery.
- A deeper social wage: the cost of living will fall with better-quality public services that improve wellbeing and that do not require low-income households to pay privately for services already delivered by the state.
- A building up of assets that create a foundation to protect against risk and enable intergenerational class mobility.

In a context of high unemployment and a global trend towards low-paid, precarious services jobs, the NDP emphasises a commitment to strengthening the social wage. A decent standard of living will be achieved through rising incomes, interventions to ensure that wage goods are affordable and through the provision of high-quality, accessible basic services.

3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

3.2.1 THE SOCIAL WAGE[19]

The commitment to the social wage has enabled significant improvements in multi-dimensional poverty, as shown in Table 3. Multi-dimensional poverty rates fell from 17.9% in 2001 to 8% by 2011, and further to 7% by 2016. With widespread poverty and low wages, the social wage (services provided by the state, which reduce the need for cash) is an extremely important element in the NDP's proposals to achieve a decent life. The slowing contribution of the social wage is cause for concern. As the social wage may sometimes seem abstract, we highlight a few examples below.

The delivery of municipal services and housing to black communities is a feature of the new democratic era. Municipal service delivery rolled out at a fast pace in areas such as electricity, piped water, flush toilets and refuse removal until 2011, as shown in Figure 5. Apart from electricity for lighting, all other areas stalled between 2011 and 2016.

Home building for low-income households has been extensive. The share of families living in formal housing rose from 65% in 1996 to 79% in 2015. This translated into 5.8 million households in formal housing rising to 13.4 million over this period. A recent study shows that 71% of dwellings in urban areas, covering 84% of the population, are "adequate in the sense that they have services, are not structurally weak and are not overcrowded" (HSF, 2018)[20]. However, the homes are often very small which drives reduced household size and limits small business opportunities.[21]

By 2016, 2.2 million households were living in urban informal residences such as backyard shacks and informal settlements (up from 1.5 million in 1996), with limited access to basic services such as water, electricity or sanitation (CSP, 2018; TIPS, 2017).

Finance for home ownership is severely limited for the three-quarters of all households who earn under R12 000 per month. The reach of formal housing into low-income households therefore relies heavily on state subsidies and provision, with just under a half of low-income households in the bottom 40% receiving a state subsidy (TIPS, 2017). In this light, we are concerned about whether the current path will take us to NDP Vision 2030 quality of life targets:

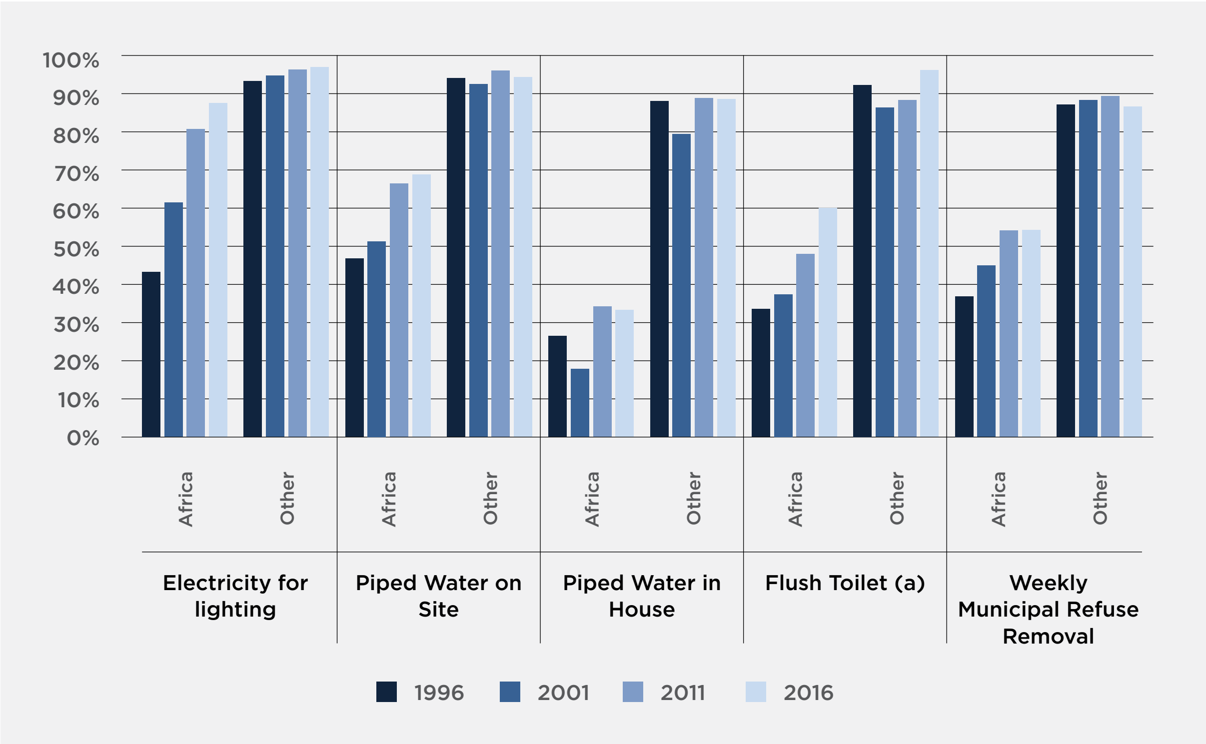
- The expansion of new subsidised accommodation slowed substantially over the past decade, from 235 000 houses and serviced sites, and subsidised rentals in 2006/7 to fewer than 161 000 by 2017/18 (CAHF, 2020).
- The main approach to formally housing low-income urban residents is through large subsidised housing projects typically located at the edges of cities (CSP, 2018). This entrenches the apartheid space economy, keeping the cost of living and of working high and limits the benefits of agglomeration for the working poor and work-seekers. One-fifth or more of household income in the poorest 30% of households is spent on transport to and from work (van Ryneveld, 2018). There are too few examples of meaningful township renewal, such as that led by Johannesburg in Soweto over the course of 1995 – 2005 (see section 3.2.2).

[19] A research report on state services and the cost of living was prepared in support of the NPC's work. The reader is encouraged to review TIPS (2018).
[20] 3.5% and 10.6% of the South African population currently live in commercial farming and traditional rural areas respectively (HSF, 2018). By 2015, 67.8% of households were in urban areas as compared to 28% in former homelands and 4% in commercial farming areas (TIPS, 2017).
[21] The NPC study on rural and township economies shows that the majority of small business operate out of their homes (NPC, 2017a).

3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

- The social wage contribution to urban transport is poorly aligned to enabling economic participation and reducing the cost of living: for example, 63% of urban public transport expenditure goes to rail, accounting for only 17% of trips, 36% is spent on bus services, accounting for 16% of trips, and almost nothing spent on minibus taxis which account for 67% of trips (van Ryneveld, 2018).

Figure 5: Access to municipal services by race, 1996 - 2016



Source: TIPS, 2017. Calculated from Statistics South Africa. Census 1996, 2001, and 2011 and Community Survey 2016. Electronic databases. Series on population group of household head and household services. Downloaded from SuperWEB facility at www.statssa.gov.za in November 2016.

Notes: (a) The Census data do not indicate if toilets were on site or not. In 2016, 3% of African households used flush toilets outside their yard but 42% had toilets in their yards rather than houses. For non-Africans with flush toilets, 0.3% were outside the yard and 6% in the yard rather than the dwelling. Figures for 1996 include chemical toilets but their share was likely small. It was 1.7% of the total for Africans in 2001, the first Census to distinguish the two types. The Censuses do not indicate whether flush toilets are on or off site.

3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

Almost all aspects of poverty in South Africa could worsen due to the Covid-19 pandemic. Unemployment is already rising, especially for lower-skill occupations. Access to many public services and measures that support the social wage (such as school feeding schemes) could be constrained as public finances come under pressure. The poor are also at greater risk of being marginalised by the accelerated move to a digital economy as a result of their low skills and limited access to digital networks. Budgetary constraints may make it harder for statistical authorities to assess trends in poverty and its distribution. Every effort must be made to ensure that unemployment, poverty and inequality do not deepen.

3.2.2 ASSET OWNERSHIP IN RURAL, FORMER BANTUSTANS, TOWNSHIPS AND URBAN AREAS

Below the surface of these aggregate numbers, lies significant asset poverty amongst the majority of the population. Increased vulnerability and constrained intergenerational class mobility are the result. This is due to a combination of challenges, including land ownership in rural, township, and urban areas, home ownership, access to transactional finance, and the ability to build up household savings. Progress has been slow, and frustration is understandably high. Some examples come to light in respect of slow progress made:

- The current cadastral and deeds registry system does not work well for low-income households since it does not legally recognise and record off-the-register rights. This is particularly a challenge for the 17 million people living in former Bantustans, 3 million farm dwellers, and millions living in urban informal settlements and backyard shacks (Parliament, 2017).
- The current legal limitation on the re-sale of RDP houses by beneficiaries for the first eight years of occupation, as well as the very significant title deeds backlog (estimated at some 850 000 in 2020) also restricts the ability of owners to use their property as financing collateral.[22]
- The NDP set a target of 20% of commercial agricultural land to be transferred by 2030[23].

- Progress towards this target needs to be measured by all land transferred to black hands, whether through government programmes or private transactions. Between 1994 and 2016/17, it is estimated that at least 9.6 million hectares of commercial agricultural land transferred to black hands. This equates to 11.6% of commercial farmland, achieving about 40% of the 2030 target[24]. Between 2017/18 and 2030, a further 13.2 million hectares would need to be transferred to achieve the NDP's target.

[22] In terms of the Housing Act 107 of 1997, a beneficiary may not sell the house within the first eight years of having taken occupation.

[23] The NDP targeted the redistribution and restitution of 20% of private commercial agricultural land by 2030. This refers to freehold farmland in former White areas. The target was meant to build on the 2011 baseline of 6.2 million hectares already transferred through government programmes (about 7.5% of this land) and an unknown amount through private transactions (PLAAS, 2016a). (It is noted that a 30% land redistribution target was initially proposed by the RDP as an interim milestone to be reached within five years). The NDP 2030 target would see 22.8 million hectares in black hands by 2030. An additional 20% would result in the transfer of a further 14 million hectares. It should be noted that while there are 82.7 million hectares of private commercial agricultural land, equivalent to 68% of South Africa's land mass, only 13% is arable and one-third is located in the Northern Cape Province where 4% of the population live (PLAAS, 2016).

[24] If measuring the achievement of the NDP target specifically since 2011, 15% of the 20-year target has been achieved, with just over 2 million hectares transferred through government land reform programmes.

3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

- About 4.8 million hectares (5.9%) of former White commercial farmland had been redistributed through land reform programmes by 2017 (DPME, 2018). Redistribution peaked in 2007/8 at 500 000 hectares but has fallen since then to about 100 000 hectares in 2015/16 (Parliament, 2017).
- About 75,000 restitution claims have been settled (DPME, 2018). By 2016/17, just over 3.4 million hectares (4.2%) of commercial farmland had been restored (AgriSA, 2018; PLAAS, 2016).
- Estimates of formerly White commercial farmland acquired privately by black people vary widely. At least 1.3 million hectares, equating to 1.6% of commercial farmland changed hands through purely private transactions between 1994 and 2016[25].
- There are 14.5 million hectares of agricultural land in the former Bantustans, governed by communal tenure (PLAAS, 2016). Between 2002 and 2010, the number of commercially oriented black smallholder households in ex-Bantustans and coloured reserves grew by 30% to 150 000 (Aliber et al, 2017).
- Security of tenure, access to water rights, productivity, and financial viability are top concerns, with many commercial farms heavily in debt and very weak output and earnings by many black-owned farms, especially those arising from land reform.

- Restitution through compensation has been provided in respect of almost 2.8 million hectares, mostly for urban land. This compensation has not been sufficient to generate an asset base and is mostly used for current household expenditures (PLAAS, 2016).
- Half of all low-income houses built through the housing subsidy scheme have not been legally registered to individual owners. There are widespread challenges where recipients cannot pay for municipal services and taxes rendering these developments a liability to municipalities (Parliament, 2017). The assets are often in locations that diminish their potential value.
- Only 47% of employed people say they contribute to any pension or retirement fund. About 57.5% of contributors are men and 42.5% are women (QLFS, 2015).
- Indebtedness by low-income households is a growing problem. Household indebtedness as a ratio to household income grew dramatically from just over 50% in 2003 to 86% in 2008, then fell to 72% by 2016. The proportion of consumer borrowers with impaired records fell from 45% in June 2015 to 38% in March 2018. This improvement masks the growth in indebtedness by low-income consumers who rely on unsecured lending and retail instalment finance. New unsecured lending grew from R30.4 billion in 2008 to R85.2 billion in 2016. Of borrowers earning R3 500 per month or less, 42% were three months or more in arrears, compared to 15% for those earning at least R30 000 per month (National Treasury, 2018a).
- As at the end of March 2020, household indebtedness to municipalities was just under R128 billion. More than 75% of this debt had been outstanding for 90 days or more.[26] The Auditor-

[25] There are no reliable and complete figures for private transfers by race. The most recent State Land Audit (DRDLR, 2017) shows that black African and Coloured individuals respectively own 1.3 million hectares and 5.4 million hectares of agricultural land. Individual ownership accounts for 21% of privately held land. There is no information on land ownership by race for the 79% of private land held by companies, CBOs, Trusts and Co-ownership.
[26] Section 71 in-year reporting (www.mfma.tresaury.gov.za)

General expressed the view that only about 60% of revenue on the local government balance sheet will materialise into cash in the bank.

3.3 Equity

The NDP makes numerous references to the need to eliminate poverty and reduce inequality by 2030. It also charges South Africans to work towards a social compact for growth, employment and equity. Equity, in the NPC, is understood as a precondition to address the deeply embedded structural barriers that prevent especially black women and black people from full economic participation. These barriers arise from the combination of colonialism and institutional apartheid and the ways in which the effects are reproduced in contemporary South Africa.

This report therefore foregrounds equity as a top objective together with equality and the elimination of poverty, consistent with the ethos of the NDP. It is interpreted as providing the structural conditions for equalising opportunity, even when the starting point is unequal. It is the quest for a situation in which personal effort, preferences, and initiative—rather than privilege arising from family background, wealth and income, race, or gender— account for the differences among people's economic achievements. This requires that factors that prevent South Africans from having the freedom to achieve their potential – such as differences in health, education, and access to public services and infrastructure – are addressed, so that the relative deprivations of one generation are not carried over.

South Africa has the highest rate of inequality in the world, according to the World Bank and the United Nations Development Programme (UNDP). The NDP aims to reduce income inequality (as reflected in the Gini coefficient measured by income) from 0.69 in 2010 to 0.6 by 2030. This would represent progress but even then, South Africa would probably still be ranked highest in the world. The Gini coefficient is an indicator that shifts slowly. According to World Bank data, of the 146 countries that have measured their Gini coefficients since 2010, South Africa had the worst score (63) and Slovenia had the best (24.2). The world average was 38.2. Of these 146 countries, 93 experienced an improvement in levels of inequality and 53 a deterioration.

Inequality rose substantially between 1994 and 2006, with the Gini coefficient rising by about 0.05 points. While millions were pulled out of abject poverty, higher income groups (those with skills and assets) benefitted relatively more. Inequality fell between 2006 and 2009 but does not appear to have improved since. The NDP also targeted a growing share of income accruing to the bottom 40%, rising from 6% to 10% between 2010 and 2030, respectively. By 2015, it had reached 8.3%.

3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

Table 4: NDP inequality targets and outcomes

NDP target	2006	Baseline (2010)	2015		2020		2025	2030
			Target	Actual	Target	Actual*	Target	Target
Reduce income inequality (Gini income measure)	0.72	0.69 (2009)	0.68	0.68	0.65	0.69 (2018)	0.63	0.60
Reduce income inequality (Gini expenditure measure)	0.67	0.65 (2009)	N/A	0.64	N/A	0.65 (2018)	N/A	N/A
Share of income going to the bottom 40%		6%		8.3%	8.8%		9.4%	10%

Source: All actual figures, except the Gini measured by expenditure, are sourced from Statistics South Africa 2017. Actual figures for Gini measured by expenditure are sourced from Sulla and Zikhali 2018. 2018 actuals are estimates sourced from Quantec.

By global comparison, South African income inequality is most extreme in relation to income paid to the top 10% (or top decile) and that going to the bottom 60%. In 2005, the share of about 37% going to deciles 7, 8 and 9 was in line with the global average. The global average income going to the top decile was 32% as compared to 45% in South Africa. The global average income accruing to decile 5 and 6 and to deciles 1 to 4 were 15.4% and 16.6%, respectively as compared to about 10% and less than 10% in South Africa (Palma, 2011).

The NDP does not have targets for wealth inequality. We should nevertheless reflect and act on this. The top decile of the South African population is estimated to own between 71% and 95% of the nation's wealth, as compared to a global average of 55% to 65% (Sulla and Zikhali, 2018; Orthofer, 2015).[27] Piketty (in Orthofer, 2015) shows that even in rich countries, the wealth share owned by the bottom half is generally 5% of the total. The small share of wealth owned by the middle class in South Africa represents a significant difference to other countries, even highly unequal ones. It raises concerns for charting a sustainable pathway to intergenerational class mobility. Clearer policy and strategy will be required to address the fragile development of a middle class in South Africa.

[27] The Sulla and Zikhali (2018) report on four rounds of wealth surveys carried out by the University of South Africa (Unisa) between 2008 and 2015.

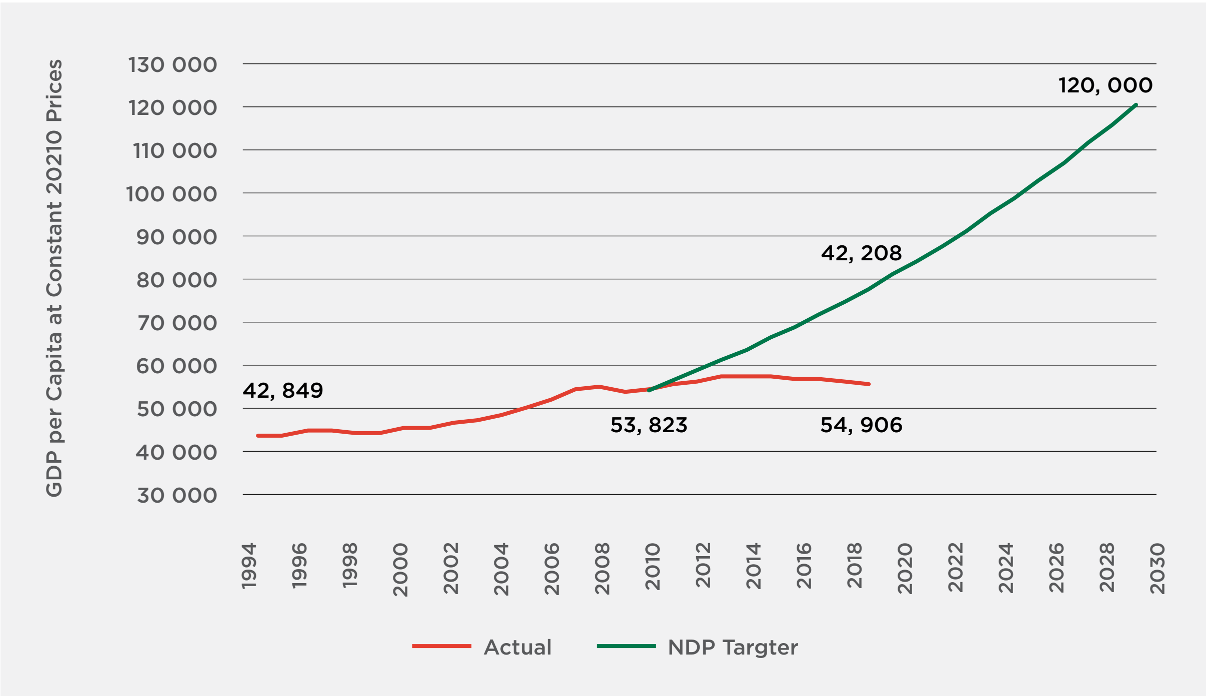
3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

Going forward, it is essential that reporting on progress in employment, poverty eradication and equity differentiate between income, race, and gender groups. In a context of extreme inequality, the averages hide important underlying dynamics. Differentiated outcomes based on income groups, race, and gender offer a clearer indication of progress in reducing marginalisation. The majority in lower income groups are households with few, low-earning workers, often female-headed, black, and living in areas far from centres of economic activity. In section 4, contributors to equity are discussed, especially related to education, competition and investment. This illustrates more clearly how concrete actions can deliver rising equity beyond the aggregate figures.

3.4 Economic growth and per capita incomes

It is simply not possible to sustain improvements in our top three goals without meaningful GDP per capita growth over many generations. The NDP targets an increase in GDP per capita at constant prices (i.e. after adjusting for inflation) from around R50 000 in 2010 to R120 000 in 2030. Performance against this target is reflected in Figure 6.

Figure 6: South Africa's GDP per capita at constant 2010 prices and the NDP targets



Source of data: South African Reserve Bank Quarterly Bulletin via Quantec, 2020

3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

Growth is an outcome of other actions: it reflects success in building the country's capital and human asset base, developing appropriate and strong institutions, and in raising technological capability.

South Africa's economic growth rates have been far too low for far too long. Growth rates that are not significantly above the growth in population limit the potential to raise the living standards of our people, while those that are below the population growth rate – as they have been since 2015 – result in a decline in average living standards.

Figure 7 compares the trends in per capita GDP of South Africa and several other countries in constant 2010 US$. Between 1960 and 2018, South Africa's per capita GDP increased at an average rate of 0.8% a year. Korea (5.9% p.a.), Malaysia (3.9% p.a.), Indonesia (3.2% p.a.), and Turkey (2.7% p.a.) all sustained much higher average growth rates over this period. Korea, Mexico, Turkey, and Malaysia, starting from a lower base than South Africa in 1960, all had higher per capita incomes than South Africa by 2018. Over the period, Korea's per capita income was 28.3 times greater, Malaysia's was 9 times greater, Indonesia's 6.2 times, Turkey's 4.7 times, and that of Mexico by 2.7 times. By comparison, South Africa's per capita income expanded by 1.6 times. This means that it takes Korea, Malaysia, Turkey, and Mexico about 12, 18, 26, and 41 years, respectively to double their per capita income but it takes South Africa 85 years to do the same. Figure 8 shows that the better performing of these other countries committed to programmes over many decades that yielded relatively consistent positive improvements. By contrast, South Africa experienced two relatively strong growth periods: one in the 1960s and one in the 2000s but without consistent decade-on-decade commitment.

Table 5: NDP GDP targets and outcomes

NDP target	Baseline (2011)	2015		2020		2025	2030
		Target	Actual	Target	Actual*	Target	Target
GDP growth	3.3%	4.6%	2.2%	4.6%	0.2%	4.8%	5.0%

**Reflects 2019 actuals*
Sources: Statistics South Africa, 2020; South African Reserve Bank, 2020.

Notes: NDP targets and outcomes are presented. In most cases, the NDP did not identify targets for 2015 or 2020. A reasonable interim estimate is offered that would have set the economy and quality of living on the track to 2030 objectives.

After our democratic transition, and mostly during a period of global growth, South Africa under-performed compared to upper middle-income country (UMIC) peers. Figure 9 shows that, between 1994 and 2016, the overall growth trend is similar. The troughs in growth rates were often aligned, and slow growth in recent years is not unique to South Africa. For example, between 2014 and 2016, per capita incomes in South Africa fell (-0.8%), closely in line with other UMICs (-0.5%).

3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

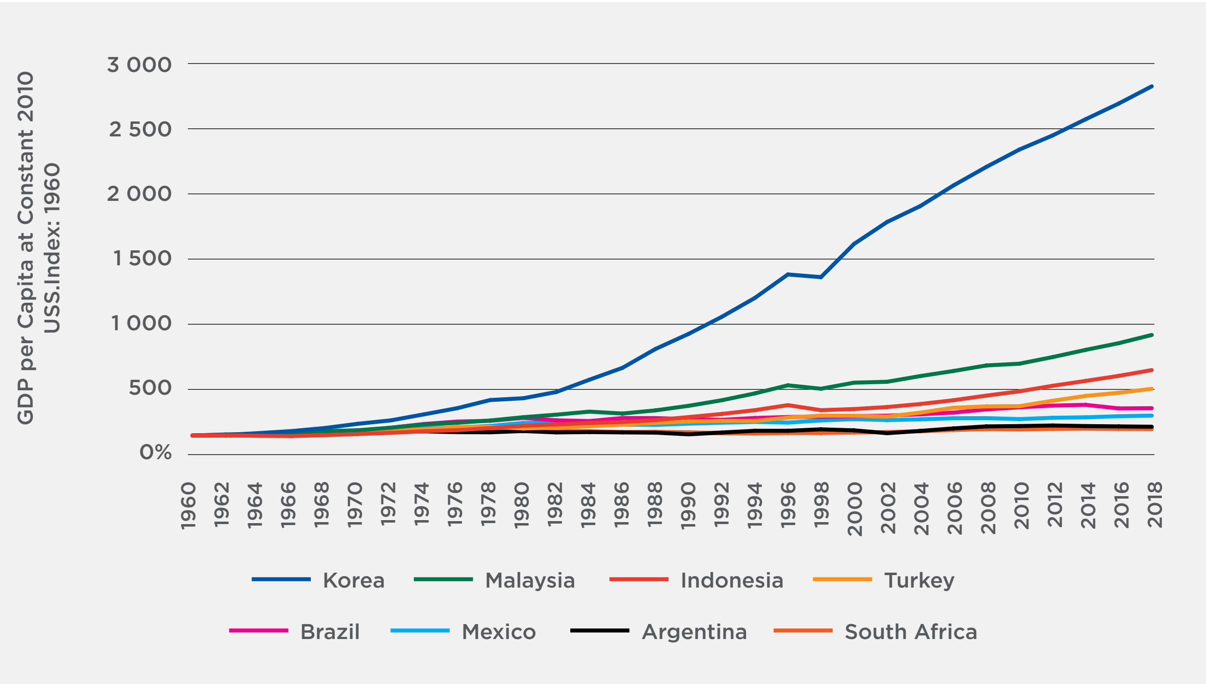
However, in contrast, the peaks in growth were significantly higher in other UMICs. As a result, other UMICs are shooting ahead of South Africa. In 2002, South Africa's per capita income (US$6 201 in 2010) was about 5% below the average of other UMICs (US$6 501) but by 2013, South Africa was 18% below average (US$7 618 vs US$9 188).

The NDP argues that South Africa is typical of middle-income mineral exporting economies in being highly unequal, high cost, low competition, slow growing, with weak investment in people. There is historical evidence showing that mineral exporters generally had significantly lower, and often negative, per capita growth than other economies between 1985 and 1997. Figure 10 shows that GDP growth was lower in commodity (minerals and non-minerals) exporters from 2011 to 2016. South Africa is an especially stark example, due to its apartheid history, which put in place rules, regulations, spatial planning, barriers to entry, a closed economy, and inequitable investment in people, which prevented sustained inclusive growth.

The poor performance of commodity exporters is not inevitable but rather a function of policy choices. The NDP offers a route to break out of this trap. Global experience shows it is possible to do so but this requires significant and sustained commitment to credible policies and their implementation.

In section 4, we look at seven areas that help explain poor growth performance: fiscal and financial sustainability, building the capital asset base, building the capabilities of our people, digital readiness for the future, dynamism in employment-generating industries, public employment, and building a capable state.

Figure 7: Relative trends in GDP per capita in constant 2010 US$



Source: calculated from World Bank World Development Indicators, 2019

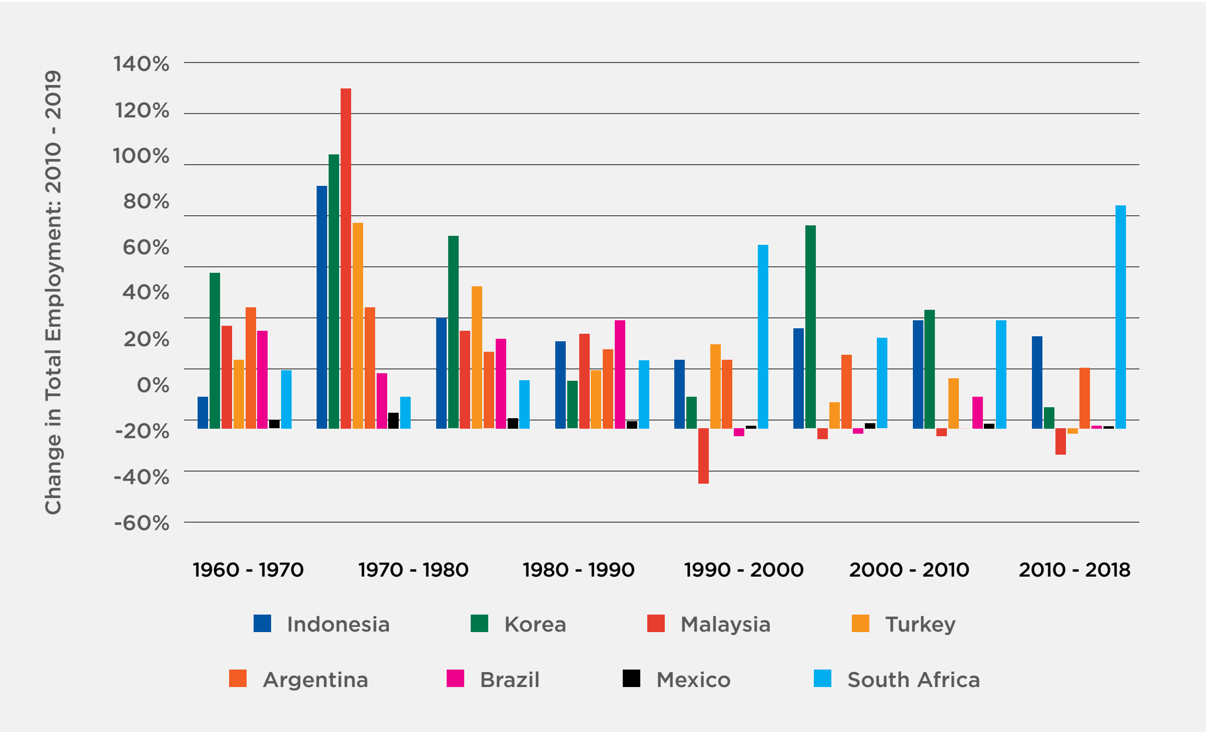
3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

Table 6: Per capita incomes in select middle-income countries

	GNI pc	GNI PPP pc	GNI pc/UMIC	PPPGNI pc/UMIC
UMIC	US$8 202	US$16 553		
Argentina	US$11 960	US$19 480	45.8%	17.7%
China	US$8 260	US$15 500	0.7%	-6.4%
Brazil	US$8 840	US$12 810	7.8%	-22.6%
Malaysia	US$9 850	US$26 900	20.1%	62.5%
Mexico	US$9 040	US$17 740	10.2%	7.2%
Turkey	US$11 180	US$23 990	36.3%	44.9%
South Africa	US$5 480	US$12 860	-33.2%	-22.3%

Source: World Bank, 2016

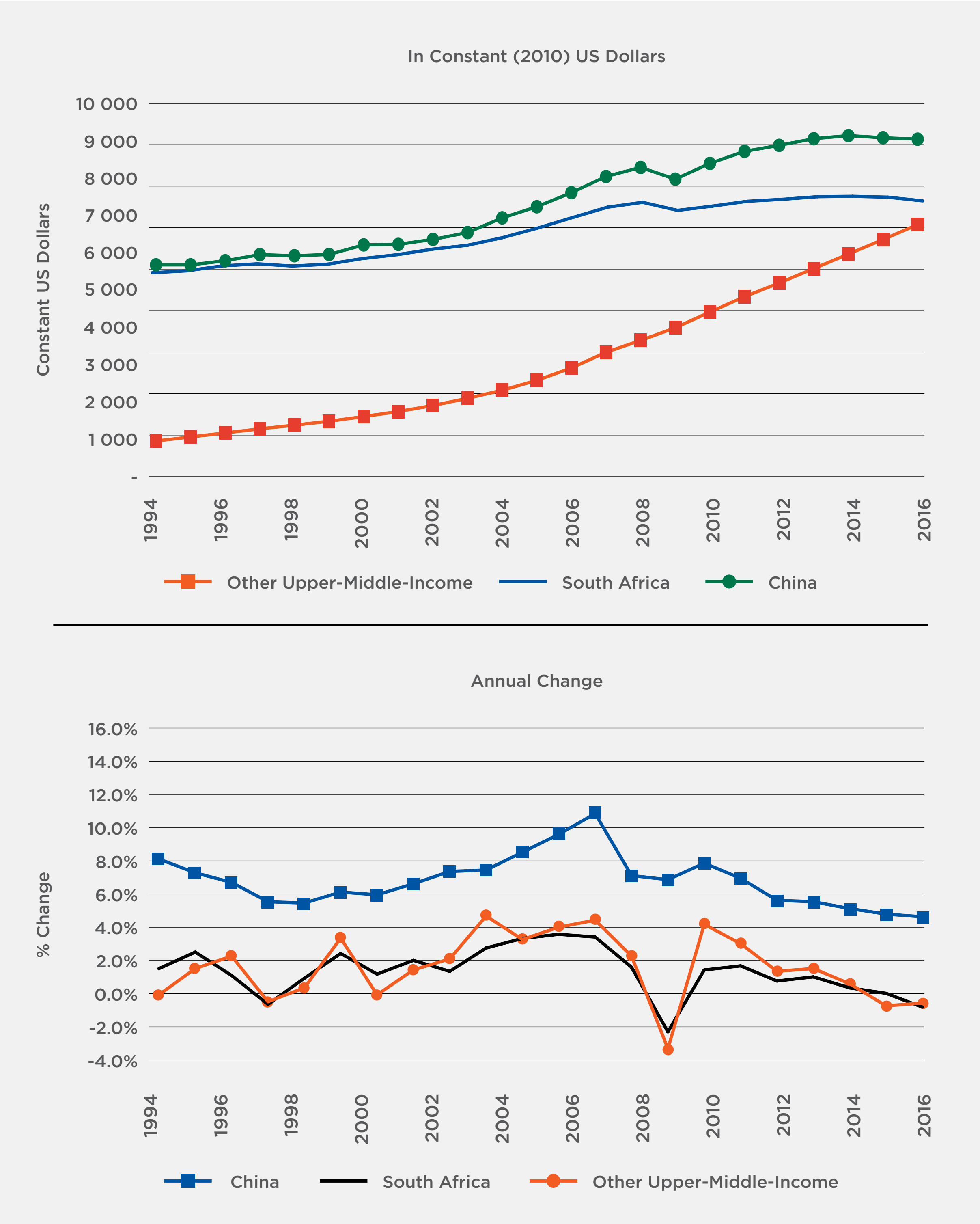
Figure 8: Comparative % changes in GDP per capita in constant 2010 US$ per decade



Source: calculated from World Bank World Development Indicators, 2019

3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

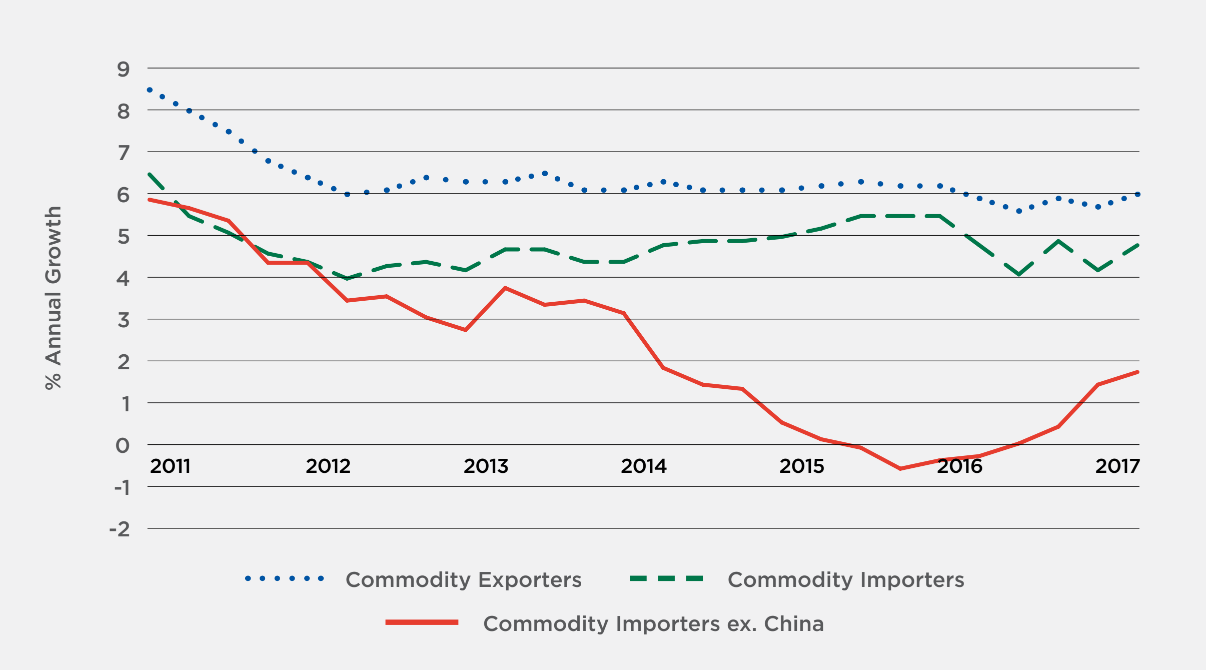
Figure 9: GDP growth – South Africa vs upper middle-income economies (1995–2016)



Source: DPME, 2018. Calculated from World Bank, World Development Indicators Electronic database. Series on GDP in constant 2010 dollars and population. Downloaded from www.worldbank.org in July 2017.

3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

Figure 10: Real GDP growth in commodity exporters and importers



Source: World Bank, 2017a:5

Progress towards the NDP's top priorities – employment, poverty eradication and greater equity

Achieving full employment is a top priority in the NDP. Over the 2010–2015 period, the NDP employment targets came close to being met. However, declining economic growth and employment rates since 2015 have resulted in a stalling of progress. Employment began falling prior to the Covid-19 pandemic, which has now resulted in significant job losses.

The composition of employment is also a concern, likely further affected by the Covid-19 pandemic:

- Between 2008 and 2019, 313 000 manufacturing jobs were lost and only 19% of total jobs created between 2010 and 2019 were in the primary and secondary sectors. Eighty-one percent of employment created since 2010 has been in the tertiary sectors.
- The labour market has also been a hostile place for our youth since 2008. The number of employed people aged 15 to 34 dropped by 530 000 between 2008 and 2019, while the employment of people over 34 years rose by 2.3 million.
- Small business accounted for a smaller share of total employment, falling from 64% in 2008 to 55% in 2015.

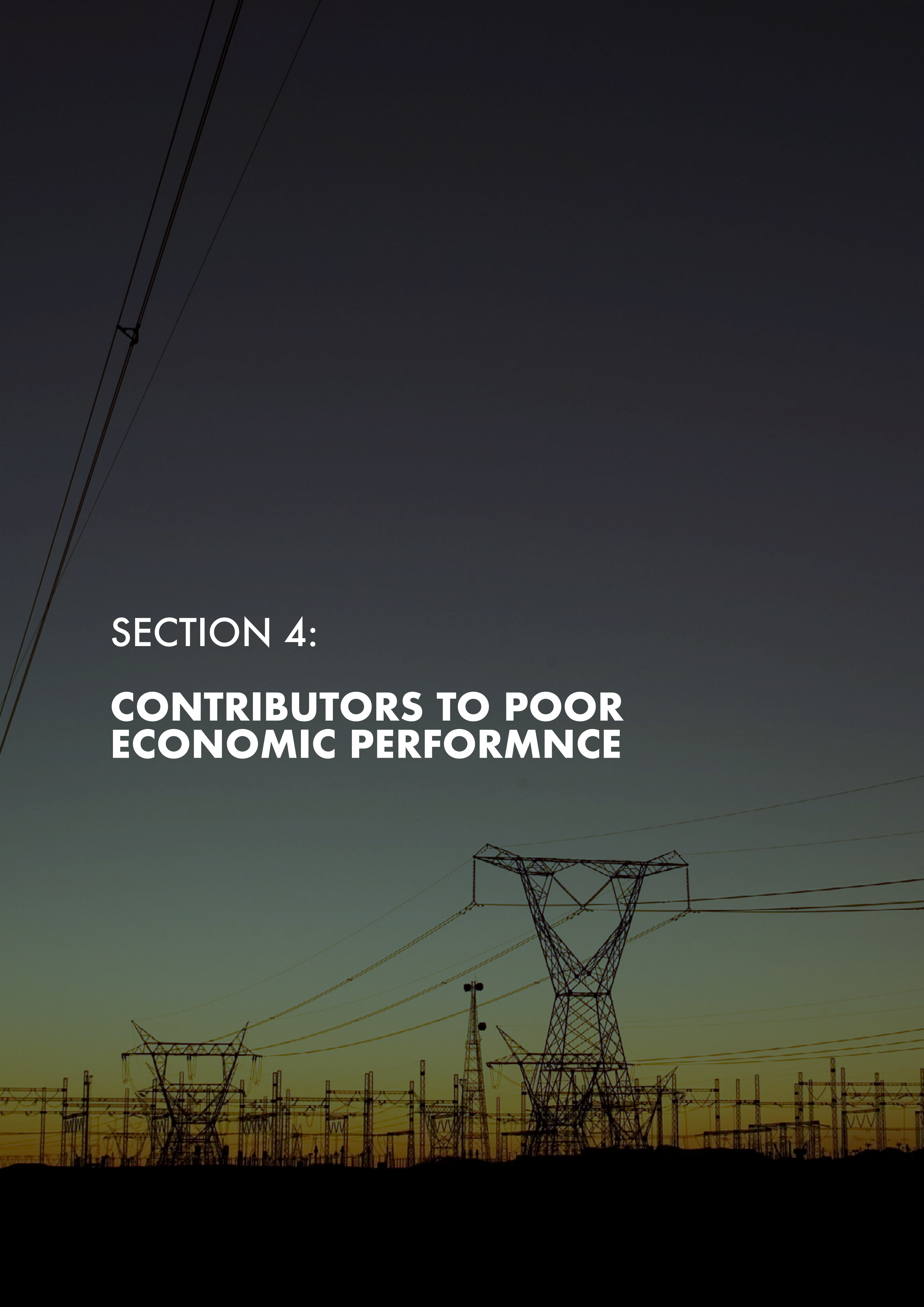
3 Progress made towards the NDP's Vision 2030: full employment, poverty eradication and equity - *continued*

The NDP aims to eradicate poverty by 2030. Substantial progress was made between 2006 and 2011 but income poverty rose to 40% by 2016.

The NDP put substantial emphasis on the role of the social wage to compensate for income poverty. There is evidence that the social wage has made a significant impact on the quality of life of poor South Africans.

There is significant asset poverty amongst the majority of the population, entrenching vulnerability and constraining class mobility.

It is not possible to sustain improvements in our top three goals without meaningful GDP per capita growth over many generations. The NDP targeted an increase in GDP per capita at constant prices (i.e. after adjusting for inflation) from around R50 000 in 2010 to R120 000 in 2030. Instead, GDP per capita was about R55 000 by 2019. Growth is an outcome of other actions: it reflects success in building the country's capital and human asset base, developing appropriate and strong institutions, and in raising technological capability.



SECTION 4:

CONTRIBUTORS TO POOR ECONOMIC PERFORMNCE

4. Contributors to poor economic performance

While significant progress was made up to 2008, we have not seen meaningful and sustainable progress towards the NDP's most important targets for employment, poverty reduction, and equity since then. We identify seven main reasons that explain why we are on a path below that required to achieve the goals of the NDP Vision 2030:

1. Sustainability in fiscal and financial resources to fuel transformation
2. Building the asset base: capital
3. Building the asset base: people
4. Digital readiness for the future
5. Dynamism in employment-generating industries
6. Public employment and public employment programmes
7. Building a capable state

4.1 Sustainable fiscal and financial resources to fuel transformation

The macro-economic space has become notably more constrained since the NDP was published. This was initially due to the 2008-2009 global downturn but is now explained by a series of domestic micro-economic and governance missteps.

The Covid-19 pandemic further constrains that space, although there is still enormous uncertainty about the scale of its impact. In any event, the pandemic has reinforced the importance of a firm commitment to an appropriate macro-economic stance.

The macro environment is the most significant reason why we need to come together and act decisively in choosing the road to a virtuous circle of development, rather than a downward spiral. We were already walking a tightrope, aiming to cross to the other side with structural change generating more macro space. Instead, the platform has been kicked away. South Africa has limited space to manoeuvre, given that the country is currently trapped on a low growth path, which implies less revenue collection. In addition, the economy's debt, as a percentage of GDP, has risen dramatically since the 2008/09 downturn. This outcome could be expected and explains why National Treasury had previously built up a budget surplus in the 'good years' to protect against this kind of external shock.

Rising debt, if it is used to finance investments that drive future growth, can be sustainable. It would be a credible approach, where government uses those funds to strengthen institutions and delivery. This, in turn, would lead to a virtuous growth cycle that offers a pathway to rising employment, investment, exports, tax collected and social delivery. The point is that there is no specific rule on what the debt-to-GDP ratio should be. The more important question is about fiscal resilience and sustainability to deliver on long-term development goals.

In contrast, the current rising debt is taking place in a context of institutional weakening. The past nine years saw falling economic and employment growth rates, diminishing global market presence, diminishing tax buoyancy, and weakening investment. If the productivity of public spending does not rise, expanding interest payments crowd out non-interest spending, or alternatively

4 Contributors to poor economic performance - *continued*

rising tax crowds out higher productivity spending. The recent downgrade by sovereign rating agencies has exacerbated this situation, making it more costly for the state to borrow but also with repercussions for the cost of capital more generally. Unchecked, and without the buffer of national savings or new sources of tax revenue, South Africa may be driven to the International Monetary Fund (IMF) and/or be forced to reduce commitments to social spending, which, in turn, can undermine social stability.

Consistency in fiscal management is key to creating confidence for lenders.

Big shifts in forecasts are understandable where there are external shocks beyond our control. The Covid-19 pandemic is one example, as was the 2008 global financial crisis, and as would be big swings in commodity prices or demand.

However, large adjustments, which are caused by domestic factors within our control, cause concern that government may not be able to meet its debt obligations. The October 2017 Medium-Term Budget Policy Statements (MTBPS) raised a red flag to indicate that the fiscal framework was under serious threat. At that time, National Treasury was unable to forecast the debt-to-GDP ratio with any certainty. While the February 2017 budget had forecast a debt-to-GDP ratio of 51.9% by 2021/22, only six months later, the MTBPS proposed that it could instead be 60.8%, or even significantly higher if no change was made to policy and fiscal decisions. Since then, as reflected in Figure 11, successive budgets have significantly raised the forecasts of debt-to-GDP ratios, and in the 2020 Budget shortened the time horizon for those forecasts. The 2018 Budget made fiscal adjustments necessary to stem the deterioration in fiscal health by reducing spending and lifting tax rates. This was intended to divert the path to a debt-to-GDP ratio forecast of 56.2% by 2021/2. The forecast ratio then rose to 72% for 2022/23, and that was before the downgrading of South Africa's sovereign debt by Moody's to sub-investment grade and the supplementary proposals aimed at addressing the impact of the Covid-19 pandemic on the lives and livelihoods of South Africans. The 2020 supplementary Budget indicated that if nothing was done to turn things around, gross debt could rise to over 140% of GDP by 2028/29. Even with active measures, the debt-to-GDP ratio could rise to 87.4% in 2023/24 before falling back to 73.5%. It must be noted that these scenarios do not yet account for global reverberations that may possibly occur as a result of the Covid-19 pandemic.

The biggest risks identified in the 2017 MTBPS and the 2018 Budget continue to be relevant. These are domestic and within our control. The main domestic risks include:

- attending to contingent liabilities of state-owned entities (see section 4.2.2)
- managing public service remuneration trends and performance (see section 4.6)
- stabilizing municipal finance
- achieving revenue collection targets

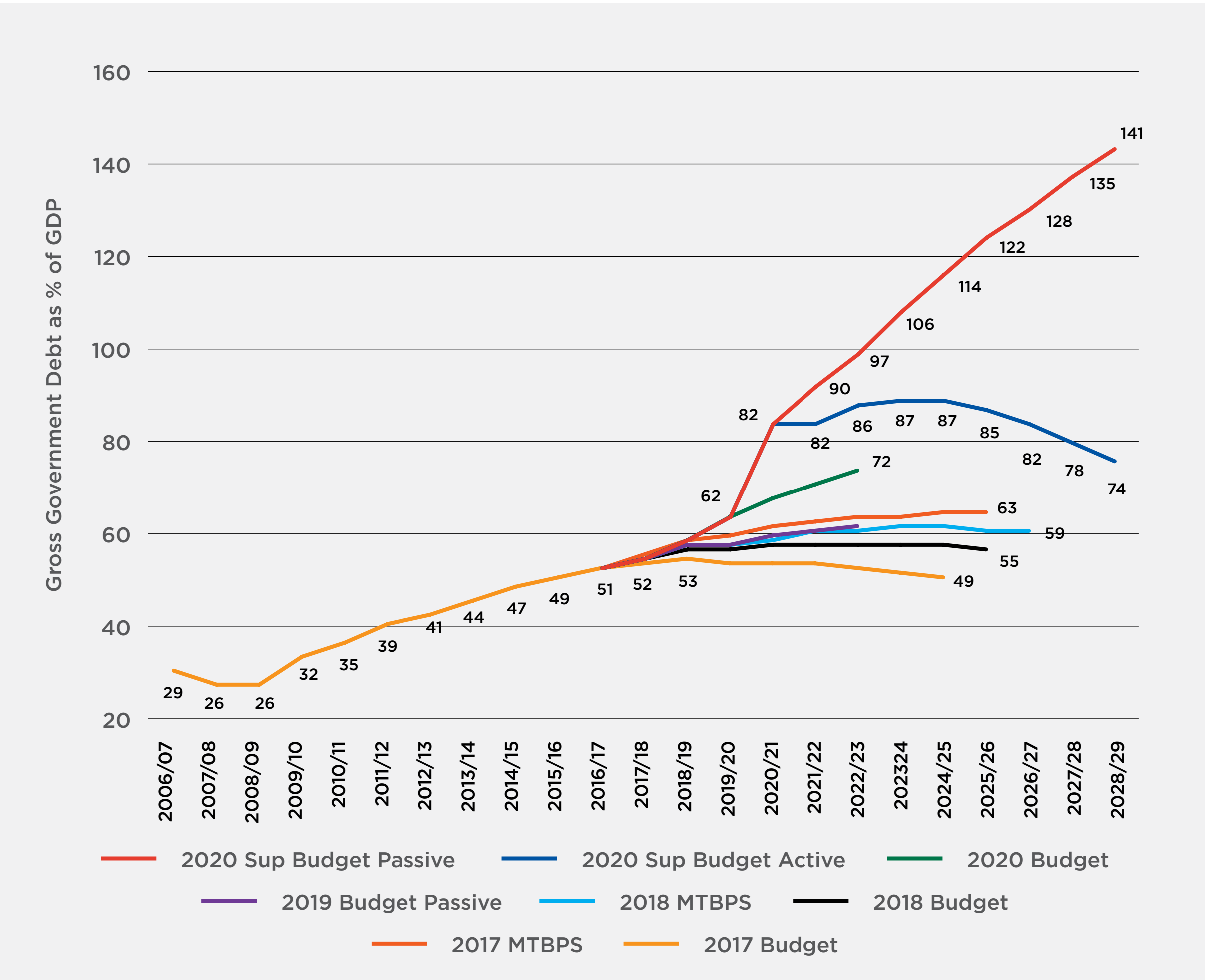
The bad news is that we have stalled once again and even gone into decline. The good news is that it is within our power to fix it. National Treasury has proposed important measures to stabilise the situation. We need to restore the country to a growth path with higher tax collection rates, greater public sector efficiency, and improved service delivery per Rand spent.

4 Contributors to poor economic performance - *continued*

Public sector personnel spending is just over one-third of total government expenditure and requires special mention. It fell from a high of 40.8% of total government spending in 1996/97 to a low of 31.2% in 2006/7 but then rose again: between 2010/11 and 2019/20 the wage bill averaged 34.5% of total consolidated expenditure. The proportion of the national budget accruing to public personnel is significantly higher than comparator countries. It has grown more quickly than any other line item apart from interest payments and squeezes out spending on complementary inputs. Between 2006/07 and 2018/19, total compensation spending rose more than 300% to R518 billion. About one-quarter of this growth is explained by growing employment and three-quarters by rising remuneration, which has consistently outpaced inflation. Rising remuneration partly results from negotiated rates but also from pay progression and promotion policies which are estimated to add 1.5% per annum to the wage bill. Public servants' salaries grew by an average 40% above inflation between 2002 and 2020.

Containing public sector personnel spending is not a simple matter of slicing and dicing. A long-term strategy is needed to address remuneration, performance, capacity and structure with the aim of delivering on NDP objectives. This is discussed in section 4.6.

Figure 11: Gross debt to GDP outlook



Source: National Treasury, 2020a, 2020, 2019, 2018, and 2017 Budgets

4 Contributors to poor economic performance - *continued*

Municipal finance is a significant and growing source of risk. The Auditor-General's report for the 2018/2019 local government financial year indicated a further deterioration in both financial health and governance indicators. Only 20 municipalities (8%) recorded a clean audit, a significant decline from 33 in the 2016/17 year, and only 2% of all municipalities were found to fully comply with applicable legislation. The AGSA's report indicates that 79% of municipalities had a financial health status considered either concerning or requiring intervention. Many of these financial problems arise from challenges in revenue collection. The AGSA's report indicates that as much as 60% of recorded revenue will never be collected. Municipal revenue collection is expected to be further impacted by the Covid-19 pandemic, since households are the largest municipal accountholders.

Just over one-third (34%) of municipalities reported a deficit at the financial year-end, totalling R6.3 billion. At the end of the 2018/19 financial year, local government in aggregate owed creditors R53.5 billion but total available cash was only R43.2 billion. Declining municipal revenue is of grave concern, given the central role of local government in delivering the state's developmental agenda, and the fiscal assumption (made in the 1998 White Paper on Local Government) that much of this will be financed out of that revenue.

Priorities in securing a sustainable fiscal and financial pathway

The state of government finances has deteriorated dramatically over a relatively short space of time and reflect growing domestic risks.

In 2017, debt as a percentage of GDP was expected to peak at 53%. The 2020 supplementary Budget indicates a peak at 87% in 2023/24 – but only if necessary interventions are adopted. Otherwise debt will continue to rise and could exceed 140% by 2028/29.

In all these scenarios, public finance available for social and economic expenditure become severely constrained.

There are significant domestic risks, that are now being realized. They must be urgently addressed by:

- Restoring confidence in the budget process and the commitment to a fiscal framework.
- Charting public sector bargaining to a sustainable result. There are trade-offs to be made between expansion of the number of public sector employees – particularly in service-delivery areas – and wage growth linked to inflation adjustments and progression for existing public sector employees. This is discussed in section 4.6.
- Restore governance in top infrastructure state-owned entities. This is discussed in section 4.2.2.
- Strengthen municipal management and finances. Collectively local municipalities owed creditors significantly more than their cash on hand in 2018/19. Given local government's foremost role in the delivery of services, this situation cannot be allowed to continue.
- Restore and modernise revenue collection capability. Achieving revenue collection targets will require meaningful investment in SARS to rebuild and modernise capacity.
- Take credible action on top locations where there is a risk of corruption. This requires credibility in the appointment of senior public servants, transparent tender processes, action on illicit financial flows, and prosecutions becoming evident in the most significant areas of corruption in the public and private sectors.
- Improve the productivity of public spending for better service delivered more efficiently should be a priority.

4 Contributors to poor economic performance - *continued*

4.2 Building the asset base: Capital

4.2.1 INVESTMENT AND SAVINGS

Weak savings and investment are critical challenges identified in the NDP. Table 8 shows average rates of savings and investment in a selection of countries that had GDP growth averaging at least 6% between 1980 and 2008. The median gross domestic investment and gross domestic savings as a percentage of GDP were 29% and 33%, respectively. As reflected in Table 7, the NDP proposes that South Africa should aim for an investment-to-GDP ratio of 30% by 2020, and the state accounts for one-third of that target.

Table 7: NDP investment targets and outcomes

NDP target	Baseline (2011)	2015		2020		2025	2030
		Target	Actual	Target	Actual*	Target	Target
Investment (gross fixed capital formation) as a percentage of GDP	19.3% (2010)	20.9%	25%	17.9%	30%	30%	30%
Public sector (state and state-owned entities) investment as a percentage of GDP	6.8%	7.8%	8.4%	5.6%	10%	10%	10%

**Reflects 2019 actuals*
Sources: Statistics South Africa, 2020; South African Reserve Bank, 2020.
Notes: NDP targets and outcomes are presented. In most cases, the NDP did not identify targets for 2015 or 2020. A reasonable interim estimate is offered that would have set the economy and quality of living on the track to 2030 objectives.

4 Contributors to poor economic performance - *continued*

Table 8: Indicators for economies with at least 6% annual GDP growth 1980–2008

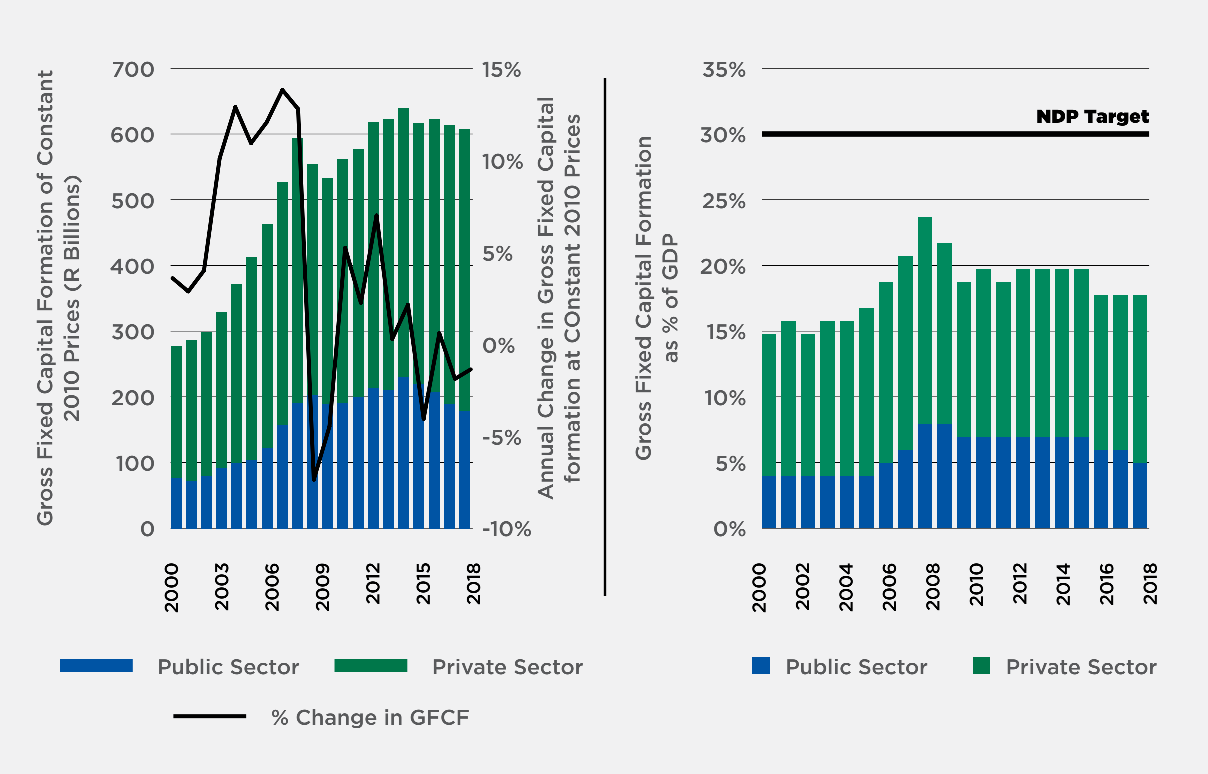
	Botswana	China	India	Korea	Laos	Malaysia	Singapore	Taiwan	Vietnam	Median
GDP growth (percentage)	7.4	10.1	6.0	6.6	6.0	6.2	7.1	6.2	6.8	6.6
GDP per capita growth (percentage)	4.9	9.1	4.2	5.8	3.5	3.6	4.4	5.1	5.0	4.0
Gross domestic savings (percentage of GDP)	37.7	40.4	23.4	33.0	12.9	37.7	45.2	28.7	21.0	33.0
Gross domestic investment (percentage of GDP	29.1	38.3	25.2	32.0	23.3	29.1	34.0	22.9	26.8	29.1

Source: World Bank, 2011

South Africa's average ratio of gross fixed capital formation (GFCF) to GDP was 16.7% between 1980 and 2015, and 18.4% between 2000 and 2015. Figure 12 shows that real growth in GFCF has been anaemic. In 2016/17, GFCF was negative for the first time outside of a global economic crisis: private and state-owned entity investment fell by 5% and 3%, respectively while there was no growth in government investment. The budget earmarked for government infrastructure over the Medium-Term Expenditure Framework (MTEF) fell from R947.2 billion, as stated in the 2017 National Budget for 2016/17 to 2019/20, to R834.1 billion, as stated in the 2018 budget for 2017/18 to 2020/21.

4 Contributors to poor economic performance - *continued*

Figure 12: Trends in gross fixed capital formation



Source: South African Reserve Bank Quarterly Bulletin, 2020

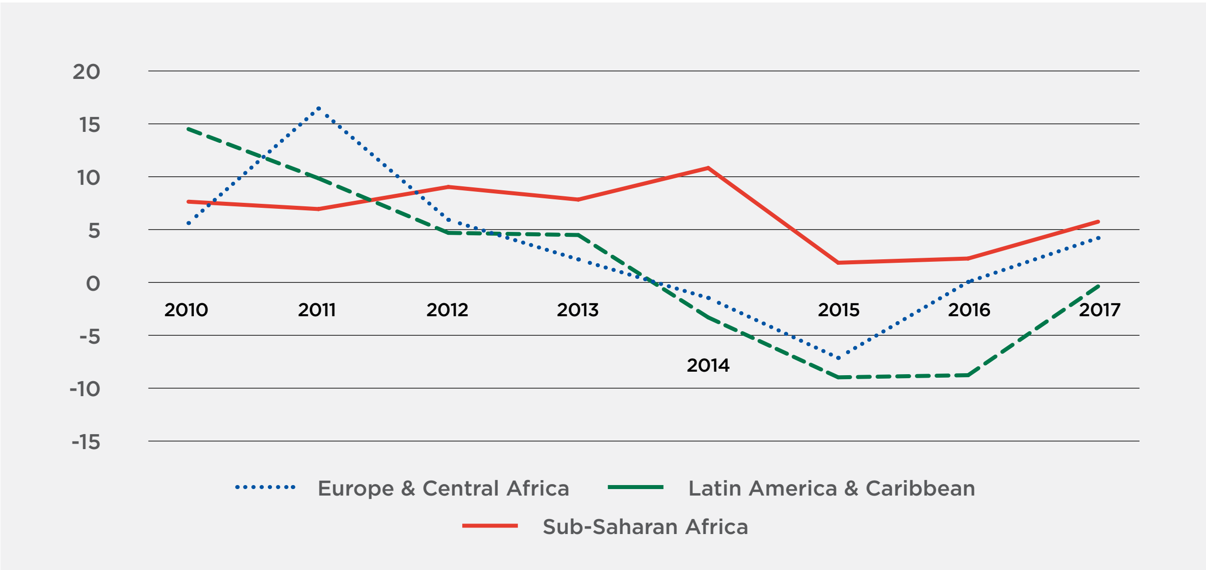
State-owned entity capital expenditure budgets also fell from R432.8 billion to R268.2 billion for the same periods. Two-thirds of municipalities underspent their capital expenditure budgets by more than 15%, and municipalities spent only half of their infrastructure budgets. The Department of Water and Sanitation had a spending shortfall of R600 billion over a decade and the Department of Transport had a shortfall of R198 billion over five years. (National Treasury, 2018). This is partly caused by weakened capability and corruption in state-owned entities and state institutions, coupled with private investment stalling in response to diminished confidence in South Africa's future. Figure 13 shows that other commodity-exporting emerging economies have also experienced declining rates of investment after the global economic crisis but reversed after 2015.

Illicit financial flows (IFFs) from South Africa between 2005 and 2014 are estimated to be significant, although there is much contestation on exactly how high. While the numbers are not an exact science, there is sufficient evidence of tax avoidance or underpayment that could be directed towards improving development. The majority of this is in the form of commercial tax evasion, comprising abusive transfer and trade mis-invoicing, where related or unrelated companies misrepresent the value of the goods and/or services they trade in order to evade paying taxes in South Africa.

4 Contributors to poor economic performance - *continued*

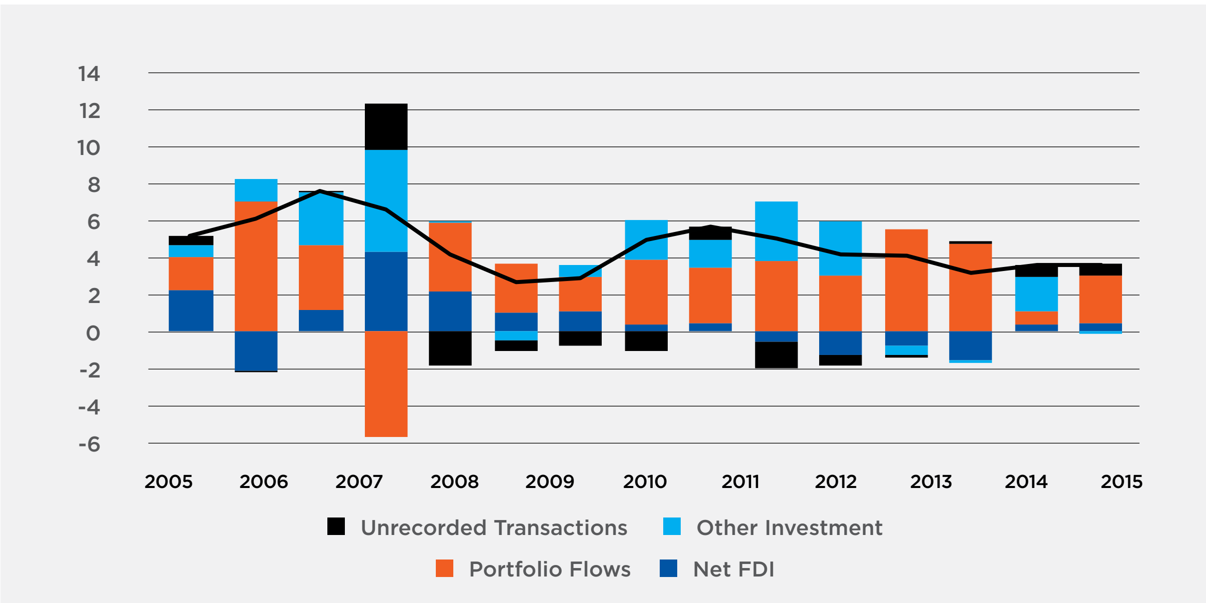
In addition to encouraging available investible resources, robust savings rates and/or foreign direct investment will be required to achieve the investment goals of the NDP. South Africa has low savings rates, falling well below 20% of GDP. Performance in attracting foreign direct investment has also been poor, with foreign capital found in less reliable portfolio flows as seen in Figure 14. Foreign direct investment has fallen since 2011 and was negative from 2014 to 2017. There was a slight recovery in 2018. In recent years, the current account deficit has been primarily funded by "other investments" and "unrecorded transactions". "Other investments" are comprised of bank flows (loans and deposits), and the source of unrecorded transactions is not known (IMF, 2016).

Figure 13: Investment Growth in Commodity Exporting Emerging Economies by Region (%)



Source: World Bank, 2018a

Figure 14: Financing of current account deficit (percentage of GDP)



Source: International Monetary Fund, 2016

4 Contributors to poor economic performance - *continued*

4.2.2 PUBLIC INFRASTRUCTURE DEVELOPMENT AND MAINTENANCE[31]

Infrastructure development is critical to attaining our long-term goals. In the context of a developing country seeking significant structural change, the public sector must lead this effort. Public infrastructure investment – most notably in respect of energy, water, ICT, and transport – is central to achieving greater productivity and competitiveness, reducing spatial inequality and supporting the emergence of new job-creating sectors. It is thus one of the non-negotiable foundations of transformation and inclusive growth. In addition, the construction of infrastructure generates employment and broad-based black economic empowerment opportunities, further contributing to the goals of the NDP.

The NDP targeted a 30% investment-to-GDP ratio, one-third of which would be delivered by the state. This is primarily delivered through provincial and local government and state-owned enterprises. A small proportion of spending is directed through national government. Public-private partnerships are meant to be a growing area in the provision of infrastructure but still only account for about 2% of public infrastructure.

To date, the delivery of public sector infrastructure has not met the required contribution to the NDP. This shortfall is evident when looking at six main indicators:

1. The share of public infrastructure spend of GDP is not sufficient

Public sector investment is targeted to reach 10% of GDP. It achieved slightly more than 8% only in 2009/10 but has been falling since then. In 2018/19, public sector infrastructure investment accounted for just over 4% of GDP. Between 1998/99 and 2017/18, the public sector spent a total of R3 trillion on the provision and maintenance of infrastructure. This expenditure increased from R48.8 billion in 1998/99 to R236.2 billion in 2017/18. In real terms, infrastructure spending grew by an annual average of 4.3%, as shown in Figure 15 below. Public sector infrastructure expenditure as a share of gross domestic product (GDP) averaged 5.9% from 1998/99 to 2017/18. The decline in investment has been marked since 2014/15, mainly driven by SOE underperformance and stagnant spending in the local and provincial spheres of government.

The NDP envisages that the infrastructure spending undertaken by state-owned entities will make a significant contribution to public infrastructure targets. To date, these expectations have been disappointed. Many of the major SOEs have become a drag on growth, rather than a support. Governance of key public entities has fallen short, posing challenges to service delivery that underpins economic expansion and now also undermining macro-economic stability. Evidence of grand corruption in these entities also undermines confidence and social cohesion. State-owned entity governance and operational management has not been improved as the NDP envisaged. The net effect is that the largest state-owned entities have failed to deliver on their long-term infrastructure investment objectives. The NDP's drive to efficiency in technology choice and operations has not come to fruition. Uncertainty has been created for potential investors (public-private partnerships and competitive suppliers of infrastructure). The largest entities are now posing a threat to South Africa's macro stability.

[31] The reader is guided to a number of studies prepared in support of the NPC's deliberations on infrastructure and on infrastructure SOE delivery. These include a review of state capacity to delivery on infrastructure by Watermeyer and Phillips (2020) and a series of papers prepared by Genesis Analytics on infrastructure SOE performance, governance and market structure (Genesis 2020 a, b, c,d). The NPC produced a Position Paper on SOE performance (NPC 2020).

4 Contributors to poor economic performance - *continued*

2. There is underspending on infrastructure budgets

On average, over the period 2015/16, to 2017/18, state-owned enterprises and public entities have spent less than 75% and 65% of their respective budgeted amounts while the state has not spent more than 85% of the available budget. In the 2017/18 financial year, none of the metros spent more than 80% of their capital budgets.

3. Public sector infrastructure budgets are declining

The five-year spending trajectory for public sector infrastructure expenditure has been adjusted downwards every year since 2017. This has a follow-on effect in future years. The total reduction in infrastructure spending over the five-year period is R303 billion. To achieve the original trajectory, it will be necessary to increase infrastructure investment by 28% year-on-year until 2022.

4. Cost over-runs are found too often

There are numerous examples of significant projects with extensive cost over-runs, late delivery and poor value for money. Some examples include (initial cost/current cost):

- Gauteng Freeway Improvement Project (R11.4bn/R17.4bn)
- Gautrain Rapid Rail Link System (R6.8bn/R25.2bn)
- Eskom's Ingula Pumped Storage Scheme (R8.89bn/R25.9bn)
- Transnet's New Multi-Product Pipeline (R12.7bn/R30.4bn)
- Eskom Medupi (R70bn/R208bn) and Kusile (R80bn/R 239bn)

This can be compared to positive experiences in the REIPP where 6422 MW was procured from 112 renewable energy IPPs, with reductions in cost in successive bid rounds leading to R210 billion in non-government investment.

5. The quality of infrastructure is poor

The quality of spending has not had the required impact on the condition of infrastructure. Not only is new public sector infrastructure development failing to meet targets but poor maintenance of existing infrastructure is undermining what has already been achieved. The South African Institution of Civil Engineering (SAICE) Infrastructure Report Card for 2006, 2011 and, 2017 scores the overall quality of public infrastructure at C- to D+. More specifically, it rates as follows:

- Infrastructure rated at B quality (fit for the future) includes Gautrain, national roads, commercial ports, ACSA airports, Eskom's distribution lines, and heavy haul freight railway lines.
- Infrastructure rated at D quality (unfit for purpose) includes sanitation in all areas outside of major urban areas and provincial, metropolitan, and municipal gravel roads.
- Infrastructure rated at E quality (at risk of failure) includes bulk water services, water supply other than major urban areas, solid waste collection and disposal other than major urban areas, paved provincial and municipal roads outside of metropolitan areas, branch railway lines, PRASA passenger railway lines, local electricity distribution, health care facilities (hospitals and clinics), and TVET colleges.

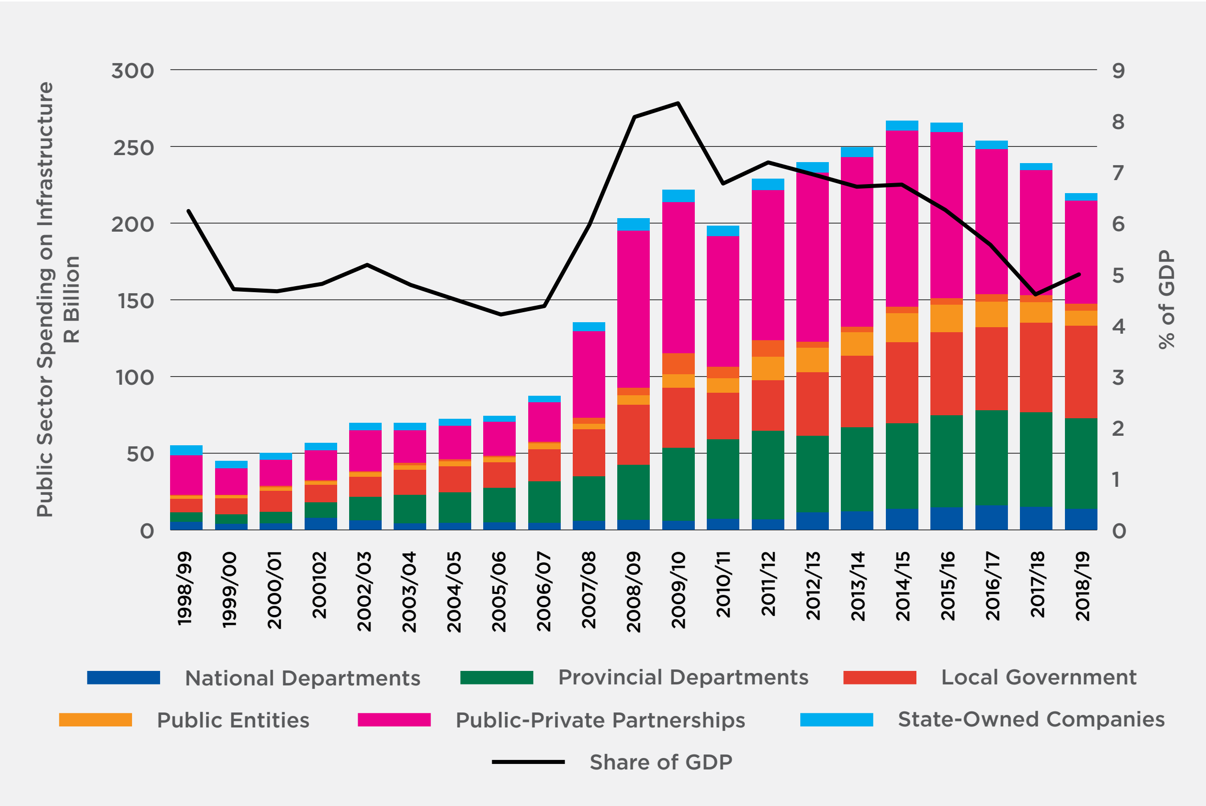
4 Contributors to poor economic performance - *continued*

The infrastructure which is most at risk of failure falls within the priority infrastructure focus areas on the NDP, namely energy, water, and transportation which are required to support economic growth and to reduce poverty and inequality. Infrastructure maintenance potentially provides many employment and small business development opportunities. The 2007 National Infrastructure Maintenance Strategy has failed to deliver it targets, as have several other initiatives. These programmes continue to be undermined by funding and skills shortages that have not been adequately addressed.

6. The infrastructure delivered does not have the required development and transformation impact

Infrastructure has largely remained aligned to traditional industries and historical spatial configurations. This is relevant to both commercial and social infrastructure critical to reducing the cost of doing business and the cost of living, diversifying the industrial base and integrating the space economy. The NPC's study on SOE performance provides detailed evidence of this (NPC, 2020).

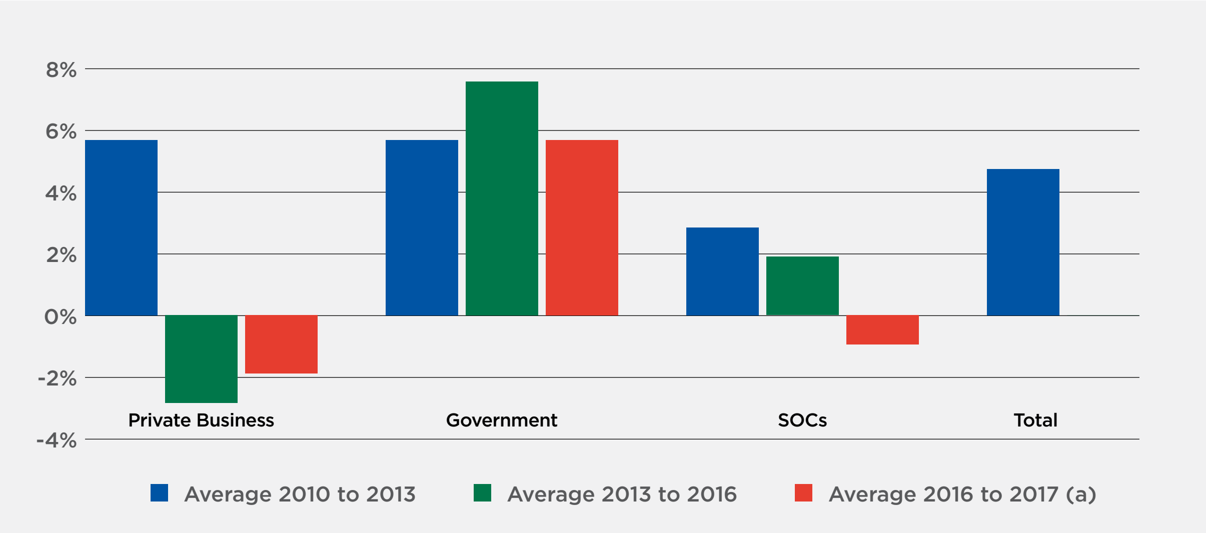
Figure 15: Public sector investment in infrastructure



Source: National Treasury, 2020 Budget

4 Contributors to poor economic performance - *continued*

Figure 16: Private, public and state-owned entity investment 2011–2017 (percentage annual change)



Source: DPME, 2018.
Calculated from Statistics South Africa 2017.
Note: (a) The figure for 2017 is year to third quarter.

Select insights on critical infrastructure

Certain categories of infrastructure are particularly important to achieving the goals of the NDP. In its second term, the NPC particularly reviewed progress in respect of energy (NPC 2019, NPC 2020), telecommunications (Gillwald et al 2020, NPC 2020), water (NPC 2020a) and transport (NPC 2020). Some key insights include:

Electricity

The NPC Diagnostic (2011) reflected on the continued reliance on the minerals-energy complex. Economic policy had continued to favour capital-, carbon- and energy- intensive activities.

The NDP advocated an approach that leaned towards job creation, less energy intensity and less reliance on carbon. The direction advocated was towards smaller flexible and adaptable energy investments that are more environmentally sound, taking advantage of South Africa's competitive advantage in wind and sun. The NDP further proposed the introduction of private investment and competitive markets, where possible. Stabilising Eskom, introducing market reforms to enable competition in generation with an independent transmission grid system and market operator, and strengthening municipal finance and maintenance approaches were amongst the critical ingredients to success.

The specific aim was to achieve reliable and efficient energy service at competitive rates for business and consumers. Social equity would be sought through expanded access to energy at affordable tariffs and with targeted, sustainable subsidies for needy households.

4 Contributors to poor economic performance - *continued*

Globally, there is growing opportunity to improve efficiency in electricity provision with emergent technologies, investors and financial innovations.

Since 1994, there have been many successes in respect of energy, most notably that more than 85% of South African households have access to modern forms of energy like electricity.

Yet, many critical issues as identified in the NDP 2030 persist. The NDP had set out specific objectives to achieve competitive and reliable electricity supply. This was meant to be achieved through a combination of timeous actions involving building of new power capacity, predominantly focussed on renewable energy supplemented by other technologies including gas, storage, coal, nuclear and imported hydro capacity. In so doing, power sector CO_2 emissions are intended to plateau until the mid-2020s following which they are expected to decline as part of South Africa's existing peak-plateau-decline CO_2 emission trajectory. Continued indecision, governance challenges and a lack of state capacity has led to a dramatic shortfall in achieving NDP targets in this respect. The NDP proposed that 20 000 MW of renewable energy capacity should be procured by 2030, as compared to 3 700 MW by 2018 but the IRP 2019 indicates that 20 400 MW (14 400 MW of utility-scale wind and 6000 MW of solar PV) is expected by 2030. Overall, new power capacity built by 2030 was expected to be 40 000 MW by 2030, as compared to 12 041 MW built by 2018 whilst the IRP 2019 indicates a need for 31 900 MW of new capacity by 2030. There has been and continues to be a continued emphasis on mega-projects with all the expected concerns arising and real-world experience (Medupi and Kusile) such as cost-overruns, carbon intensity and rigid technology commitments.

These shortfalls in meeting NDP targets has had devastating effects on the South African economy. First, it has resulted in energy shortages that constrained economic activity and potential growth. Second, indecision in energy investment and procurement has created uncertainty for investors – both those operating in the energy sector and businesses more generally. Third, Eskom is currently not financially sustainable, particularly due to its debt burden. This is now having a negative effect on prospective new-build capacity as a result of an inappropriate market structure combined with fiscal credibility overall.

Some part of this shortfall in meeting NDP targets was caused by policy indecision in respect of resource planning. In the 1990s there had been an intention to encourage private investment but that was not pursued. Neither was Eskom enabled to build, nor were electricity prices raised sufficiently to cover depreciation. Despite various announcements, policy indecision continues to hamper progress in addressing the state of Eskom and of electricity supply more generally. This is evidenced in slow and uncertain progress in respect of introducing an independent system and market operator, separating out transmission, and power producer procurement and deployment.

There have been significant governance and organisational culture concerns in Eskom. Eskom's governance and reputation have been negatively affected by the widely reported state capture and mismanagement of funds. It is a concern that the board and executive management has continued to struggle in finding stability. It is hoped that the recently appointed CEO will have the opportunity to build and stabilise executive leadership.

The Just Transition

South Africa is committed to a Just Transition. A just transition is one where working people,

4 Contributors to poor economic performance - *continued*

particularly the poor and vulnerable, are protected and do not have to shoulder the burden of shifting to a low-carbon, cleaner and more climate resilient society and economy.

The NDP stated that by 2030 South Africa will have transitioned to an environmentally sustainable, climate-resilient, low-carbon economy and just society.

This was not, however, a plan for a Just Transition but rather a guiding framework with some concrete proposals on what needs to be implemented immediately to achieve the envisioned end state captured in the NDP.

The NPC led an extensive process with social partner dialogues on pathways for a Just Transition. The aim was to build consensus on a common vision for a Just Transition to a low-carbon, climate-resilient economy and society by 2050 and develop proposals for achieving this vision.

South Africa could greatly strengthen the adaptive capacity and resilience of people living in poverty by reducing or eliminating resource poverty and increasing access, particularly in the nexus between land-use, water and energy. The NPC adopted an economy-wide scope for planning for a Just Transition in South Africa, with three key sectors, namely, energy, water, and land-use being prioritised.

To date, there has been limited progress towards achieving this goal, and it is unlikely that it will be fully attained by 2030, as indicated by the NPC Just Transition process and outcomes. However, progress has been made building consensus with stakeholders on a common vision for a just transition (TIPS, 2018).

Telecommunications

The NDP envisages that by 2030, a seamless information infrastructure would be available and accessible to all South Africans. This digital network infrastructure would be available at a cost and quality at least equal to South Africa's main peers and competitors and would promote economic growth, development and competitiveness.

To achieve this goal, targeted public and private investment is required. It also requires the removal of several regulatory bottlenecks including the long overdue release of spectrum and the effective regulation in retail and wholesale provision.

Network coverage is nearly universal. By 2019 4G/LTE covered almost 93% of the population. Urban areas were fully covered, and most provinces had rural coverage exceeding 80%. By 2013, 86% of the population already lived within 10 km of a fibre access point, with further roll-out since then particularly in urban areas and to LTE base stations. International bandwidth usage doubled between 2016 and 2018.

Between 2015 and 2019, about R177 billion was invested in the telecommunications sector. This was driven by the private sector. The public sector has lagged behind, partly explaining poor progress in digital inclusion. Although there is nearly universal broadband coverage, only half the population have any access to the internet and only 10% have internet in the home. Public buildings were meant to be fully connected by 2020 but only one-third of schools have internet. This is further discussed in section 4.4.

4 Contributors to poor economic performance - *continued*

Water

The NDP acknowledges water as a strategic resource critical for social and economic development. By 2030, the aim is to have effective and evolving water management and services in order to support a strong economy and a healthy environment.

Unfortunately, very few of the NDP goals have been realised.

Time lags between the decision-making stage and implementation (13 years on average) are too long (NPC, 2020a). There are significant backlogs on infrastructure projects.

There are important unresolved policy issues in the water sector, such as the lack of a national water pricing policy and the lack of a water regulator. There is a need to ensure projects are funded effectively from conception to execution through to outcome.

Transport

Commercial transport plays a critical role in supporting industrialisation, diversification, trade and development. The NDP envisaged a transport system that was "reliable, economical, with smooth flowing corridors linking its various modes of transport (road, rail, air, sea ports and pipelines)" (NDP, 2012 p 183). This was meant to address "corridors dominated by outdated, malfunction prone railway technology and poor intermodal linkages….(and) Ports (that) are characterised by high costs and substandard productivity relative to global benchmarks". Shifting to rail was meant to lift pressure off the road network and reduce carbon emissions. A reformed transport system was meant to support a re-orientation of production away from an apartheid space economy and enable the industries of the future.

The NDP identified special priority projects. Amongst others this included coal transport corridors for Eskom and for export, the upgrade of the Gauteng-Durban corridor, the North-South Corridor linking Durban and Dar es Salaam, and the completion of the new multi-product pipeline. Good progress was made on mineral export line expansions and the pipeline but there have been significant shortfalls on corridors and port development.

Transnet is meant to be a critical contributor to this vision. Over the past decade, Transnet has continued to deliver well in relation to historical heavy commodity export lines. It has not met its core mandate in relation to general freight. It has therefore not succeeded in attracting freight away from road to rail, it has not offered competitive support to agricultural freight. Port tariffs are globally competitive for coal and minerals but 200% higher than the international average for containers. Intermodal linkages are 130% above a benchmark target.

Transnet has been challenged by significant gaps in leadership, governance and accountability, with a high turnover in executive leadership and an unstable board. It is hoped that the new CEO will be given the opportunity to build and stabilise executive leadership and that a strong and stable board of directors be installed with accountabilities set to deliver on the NDP vision.

The NDP envisaged a public transport system that could "bridge geographic distances affordably, foster reliably and safely so that all South Africans can access previously inaccessible economic opportunities, social spaces and services" (NDP, 2012 p 183). Commuter transport is delivered in a number of modes within an integrated transport network, with PRASA as a backbone providing

4 Contributors to poor economic performance - *continued*

quality and affordable rail transport services that satisfy the commuter, intercity and international travel needs of households, and especially lower-income households.

The NDP set several special priority projects to be pursued by PRASA including renewal of the commuter train fleet, station upgrades and improved facilities to enhance links to road-based services. This would require technological modernisation. It was anticipated that complete fleet renewal could take up to 15 years (NDP, 2012 p 189).

Commuter transport continues to account for a large share of spending in low income households, and is not sufficiently safe, affordable, or efficient. Significant investment was made in PRASA, approximately R80bn in capital spending over the past decade, yet only half its coaches are in operation. Two-thirds of public spending on urban transport goes to PRASA but it accounts for a rapidly falling share of trips, currently only 17%. PRASA is not financially viable and has been dogged by governance failures.

The NDP's public infrastructure targets have not been met for the following main reasons (NPC, 2020):

- Skills and expertise are not sufficient in key infrastructure planning, implementation, and oversight positions across all three spheres of the state.[32]
- Even when skills are present, they are sometimes side-lined by weak governance and inefficient and ineffective operating processes over which the skilled staff have no control.
- State-owned enterprises have especially under-delivered. Governance and capacity issues at SOEs have not been adequately addressed. This results in significant gaps in meeting their infrastructure development targets, in terms of value of investment and quality of investment. In turn, these gaps have a material impact on slow economic development, growth and job creation.
- Project planning, specifying of requirements, procurement and delivery management across the state is weak, including in the delivery of critical basic services infrastructure at municipal level. This has resulted in both cost overruns (less value for money) and poor quality of outputs. This reflects a long-term lack of capacity in critical functional areas.
- The procurement and delivery management system has not delivered as intended, and has contributed to delayed projects, inflated costs and, in some cases, facilitated the misuse and/or theft of public resources. These dramatically constrain the potential developmental and empowerment impact of infrastructure investment, via employment and empowerment opportunities in the construction sector.
- Oversight institutions and enforcement institutions have not addressed corruption and the theft of resources.

[32] As an example, in 2015, 202 municipalities did not have a civil engineer and only 56 had any registered civil engineering staff.

4 Contributors to poor economic performance - *continued*

- The national infrastructure maintenance strategy has not been implemented, and local government has not met its basic infrastructure maintenance obligations.
- The state's poor performance in the planning, design, procurement and oversight of infrastructure project implementation, together with high levels of corruption, have undermined private sector confidence, and the willingness to participate in PPPs.

The continued emphasis on mega-projects is contrary to NDP recommendations and deserves special mention. The NDP is very specific about this: in South Africa, and globally, mega projects tend to be unaffordable, have significant cost-overruns, are prone to corruption, are import-intensive, are often capital-intensive. Proud announcements should be made about smaller, flexible, affordable projects that improve alignment to the NDP imperatives – reliable and accessible infrastructure that enables high value-added employment-generating production and the densification of high-quality human settlements.

There have been efforts to strengthen delivery over this period. Some examples are:

- The Infrastructure Delivery Improvement Programme (IDIP) was in place between 2003 and 2017 and aimed to address communication and co-ordination among user departments and implementing agents.
- Infrastructure Delivery Management Toolkits (2004, 2006, and 2010) were developed through IDIP.
- The Cities IDMS (CIDMS) (2016) was developed by National Treasury through the Cities Support Programme to establish principles, methodologies, processes, techniques, and case studies to assist infrastructure planners and decision-makers within cities.
- The Presidential Infrastructure Co-ordinating Committee (PICC) was established in 2012 to address weak capacity, poor co-ordination and weak integration. A National Infrastructure Plan with 18 identified Strategic Integrated Projects (SIPs) was developed and adopted by Cabinet and the PICC.
- There are some notable successes in changing the course of the quality of human settlements. Over the decade from 1995 – 2005, the City of Johannesburg drove a transformation programme in Soweto, from dormitory to decent living, with investment in tarred roads, parks, sidewalks, theatres, shopping precincts, churches, places of entertainment, transport nodes and community centres.

These interventions have had some impact but have generally not adequately addressed several key issues.

Course correction requires a focus on eight top priorities over the coming five years. This is essential to achieving any success in current efforts to identify and raise capital for major infrastructure projects.

Overall, there should be less emphasis on mega projects and far more focus on smaller, affordable, flexible, projects that clearly deliver on NDP priorities around the transformation of production and of the space economy.

4 Contributors to poor economic performance - *continued*

Priorities to build the capital asset base: driving investment and infrastructure

Driving Investment

The NDP targeted an investment-to-GDP ratio of 30%, up from 19.3% in 2011. The public sector was meant to deliver a third of that target, investing the equivalent of 10% of GDP. By 2019, the actual investment-to-GDP of 17.9% was lower than that in 2011. The public sector invested the equivalent of 5.6% of GDP in 2019, lower than the 2011 baseline of 6.8%. Savings rates fall below 20% of GDP and South Africa has not sufficiently attracted foreign investment.

There is a vicious circle of falling investment, diminishing tax revenues, and rising cost of debt to close the budget gap, and/or constrained resources for investment in South Africa's human and capital development to achieve the NDP.

The foundations to promote investment are found in the seven areas discussed in sections 4 and 5 of this Report, showing how to improve confidence of investors and attract capital.

Public sector infrastructure investment

Public sector infrastructure spending has fallen since 2014. The decline has been led by infrastructure SOEs. Weak infrastructure spending in the rest of government is also found. Specific concerns include:

- The share of public infrastructure spend in GDP is insufficient.
- There is underspending on public sector infrastructure budgets.
- Public sector infrastructure budgets are declining.
- Significant cost over-runs are found too often.
- The quality of infrastructure is poor.
- The infrastructure that is delivered does not have the required development and transformation impact.

Public sector infrastructure delivery should be corrected to lead recovery and transformation. A number of recommendations are made on eight top priorities:

1. ***Rebuild the private civil construction sector***
2. ***Drive the implementation of top priority public infrastructure programmes*** in energy, transport, water, housing and telecommunications. De-emphasize mega projects in favour of a pipeline of smaller, affordable and flexible projects.
3. ***Build professional capacity in the state to drive and oversee infrastructure.*** There must be adequate and appropriate capacity across the state in respect of public sector infrastructure planning, procuring and overseeing delivery to ensure that budgets are applied effectively, quality of outputs improves, and cost overruns are reduced. Better state outcomes will support stronger private sector confidence and generate more opportunities for PPPs.
4. ***Develop appropriate procurement processes and capacity*** that are designed to expedite and improve quality and create procurement processes that deliver value for money (optimal use of resources to achieve intended project outcomes) which reduce the opportunities for corruption (NPC, 2020). Built environment capabilities in the OCPO should be improved to reflect the importance of infrastructure procurement.

4 Contributors to poor economic performance - *continued*

5. *Increase delivery of infrastructure maintenance*

The backlog in infrastructure maintenance threatens to undermine what has already been achieved to date. Infrastructure maintenance in local government requires special attention. The local government fiscal arrangements around the funding of infrastructure maintenance must be revised, in order to ensure that sufficient funding is available for the basic services infrastructure vision of the NDP. Local municipalities must also have access to suitable capacity to ensure that they are able to plan and implement effective infrastructure maintenance programs. Procurement processes must be better overseen to avoid corruption and the theft of public resources.

6. *Strengthen infrastructure SOE performance*

The public-interest mandates of the major SOEs (which will include the details of their contribution to strategic public infrastructure investments) must be clarified as a matter of urgency. They must be adequately staffed with personnel at all levels that have the skills necessary to undertake and implement effective infrastructure planning and project implementation. Strict consequences for the misappropriation of procurement budgets must be implemented, and major infrastructure items should be procured in fully transparent and public processes. Detailed recommendations are found in the NPC's Position Paper on SOEs (NPC, 2020).

7. *Deepen local government infrastructure delivery capacity*

Local government has an important role to play in the roll out and maintenance of basic services infrastructure across the country. The ability of all municipalities to develop and to maintain local infrastructure is a key component of the NDP's goal of addressing spatial inequality and ensuring access for all households to a package of basic service. However, basic services infrastructure (most notably in respect of water and sanitation) has deteriorated in many places over the past few years, and the local government infrastructure backlog is estimated to be running at around R15 billion per annum (PARI, 2018). The deteriorating state of local government finances – notably the low and declining rates of revenue collection – is the main reason for the low level of infrastructure maintenance, together with significant skills gaps in respect of technical planning and project management. In the current local government fiscal framework, the maintenance of infrastructure is expected to be paid for out of local government's own revenue flows[33]. As these flows decline, so maintenance is postponed, sometimes indefinitely, distribution losses increase (which further weakens the municipal fiscal position) and infrastructure deteriorates. The effects of this are concentrated in poorer, rural, and small-town municipalities which have the least robust local revenue systems. The resulting deterioration in services has negative implications for business confidence and private sector investment, and thus contributes to entrenching inequitable spatial development. Although technical capacity to design and implement effective maintenance programmes is also a contributing factor, the lack of suitable funding mechanisms is critical.

8. *Enable private participation in public infrastructure delivery and management*

PPPs have attracted some private sector investment in public infrastructure in South Africa. Examples include toll roads, government office accommodation, prisons, and more recently, renewable energy. However, to date, PPPs have not resulted in sufficient scale of private sector investment in public infrastructure in South Africa. Less than 2% of investment in public infrastructure has been through PPPs. Given the country's fiscal constraints and given

[33] Under the current regulations, municipal infrastructure grants made in respect of the annual division of revenue may only be applied to the construction of new infrastructure and may not be used for the maintenance of existing infrastructure.

4 Contributors to poor economic performance - *continued*

that there is no shortage of money or management capacity in the private sector, this is an anomaly. There is a dearth of properly prepared and bankable projects, as well as a lack of transparent, efficient and effective processes for bringing projects to the market (apart from the IPP Office).

There is significant potential for increasing private sector investment in public infrastructure in South Africa.

For example, there has been minimal private sector participation in the financing and management of municipal water supply and sanitation infrastructure to date despite strong motivations for such participation, viz:

- the need for improvements in municipal water supply and sanitation infrastructure is very large, and hence a large programme could be put in place;
- many municipalities are struggling to adequately finance and to manage their water and sanitation infrastructure, which is often in a very poor condition, with severe consequences for service delivery, public health and industry;
- there are sustainable revenues associated with the supply of water, the reduction of water losses, the installation of bulk water and sanitation infrastructure, the treatment of wastewater, and from the sale of treated wastewater; and
- many municipalities are struggling to put in the place the required capacity and capability to manage their water supply and sanitation infrastructure systems, and there is an urgent need to mobilise private sector finance, efficiencies, skills and resources in this regard.

Many of the infrastructure PPPs that have been entered into rely on the fiscus for their income streams, are under-written by government guarantees, and do not transfer much real risk to the private sector.

There must be a greater focus on projects which do not further impair government's balance sheet, and which do not rely on the fiscus for their income streams.

There are several possible reasons for the disappointing level of private sector investment in public infrastructure.

- The current PPP regulatory framework is generally sound but is lengthy and requires tenderers to make a significant investment of resources into the process.
- The PPPs are demand-driven in that they rely on government bodies to propose PPP projects. There is a need for the adoption of a more supply-driven approach, which would involve the identification of infrastructure sectors in which there is potential for private sector investment and the active facilitation of private sector involvement in these sectors.
- The current framework is also based on a project approach, and there has been a lack of development of programmes (consisting of numerous underlying projects) for private sector investment.
- The project preparation costs for privately-financed public infrastructure projects are prohibitive for individual smaller projects.
- There is generally an absence of capacity to manage PPP processes in government bodies. There is a widely held view amongst government officials that PPPs are too complex, take too long, and are too expensive.

The successful Renewable Energy Independent Power Producers Programme (REIPP) provides an example of a different approach to PPPs. For the REIPP, the national government identified renewable energy as an infrastructure sector suitable for private sector investment, and a national initiative was put in place to facilitate a programme of private sector investment in renewable

4 Contributors to poor economic performance - *continued*

energy projects. In other words, it was a supply-driven approach. Most of the preparatory work was carried out at national level for the programme as a whole (there was not a separate PPP feasibility process for each individual renewable energy project) and there was a national procurement process for the programme as a whole. The IPP Office was able to take this approach to the REIPP as it obtained an exemption from the PPP regulations.

4.3 Building the asset base: People[34]

4.3.1 EDUCATION AND TRAINING TO FUEL VISION 2030

Education is a top priority in the NDP and is seen as the most important asset required to address poverty, unemployment and inequality. There is clear correlation between employment, incomes and education, as shown in Table 9.

Table 9: Unemployment rate by race and education

	Ages 25 to 35			Ages 36 to 64		
Educational attainment	Black African	Coloured or Asian	White	Black African	Coloured or Asian	White
Less than matric	35%	33%	16%	21%	17%	9%
Matric	30%	18%	6%	19%	12%	5%
Matric plus FET diploma	22%	7%	5%	9%	4%	4%
Degree at least BA	12%	4%	2%	4%	3%	2%

Source: Stats South Africa, 2015
Note: This is the official definition of unemployment

Achieving the objectives of NDP 2030 requires a coherent and integrated education and skills system that addresses several challenges: effective inclusion or access to education opportunities, quality education outcomes, and relevant skills to promote better participation in the labour market.

Education is the most important asset that enables low-income families to move up the ladder. The education targets and proposals are therefore a top priority in the NDP and are relatively precise.

[34] Two reports on education were prepared in support of the NPC's deliberations. The reader is encouraged to review: van der Berg et al (2020) and Singizi (2020).

4 Contributors to poor economic performance - *continued*

It is estimated that 18% to 36% of households would be lifted above the upper bound poverty line if the NDP education targets were met. This would be the result of universities producing about 118 000 degrees and 143 000 diplomas annually from low quintile households by 2027 (see box below).

While apartheid was a form of social engineering aimed at exclusion, any reflection on transformation in South Africa must recognise that we are engaged in a challenging effort to undo that legacy. This is a process that requires great cultural and institutional change over many generations. While we are only in the first generation of this transformation, with much more to be done, there is evidence of significant intergenerational progress. An emerging generation of young people is accessing opportunities well beyond those of their parents. By 2016, 67% of 24-year-old black students engaged in post-secondary education had parents with secondary schooling or less. Furthermore, 70% of those aged between 20 and 34 who had completed secondary schooling had parents who had not completed secondary school (Lehohla, 2016).[35]

The number of black students completing matric and post-school education and training (PSET) has expanded dramatically over the past 30 years. Yet, of the group who entered Grade 1 in 1997, 60% wrote the matric exam and 37% of that original group passed. About a quarter of the original group achieved a pass that qualified them for university entrance, and 12% entered university, of which half had completed an undergraduate degree within six years after matric (Moses; Van der Berg; and Rich, 2017).

The cohort that entered school in 2005 fared significantly better, so that 50% ultimately passed their matric exam. There is a wide differential by quintile and therefore by race. For example, 25% of white matriculants achieved an average mathematics mark above 60%, compared to only 5% of their black counterparts. Almost 40% of learners drop out between Grade 10 and Grade 12, and 12% drop out before Grade 9, without obtaining any qualification. This is particularly prevalent outside the main metropolitan areas, and especially in the former homelands and rural areas (Department of Basic Education, 2016; Turok et al, 2017). It is against this backdrop that we assess progress.

The NDP targets for education aim to put South Africa in line with other middle-income economies - these are laid out in Table 10. The NDP proposes that basic education until 2030 should focus on improving literacy, numeracy/mathematics and science outcomes, increasing the number of learners eligible to study mathematics and science-based degrees at university, improving performance in international testing programmes and retaining more learners, and expanding skills and vocational training.

[35] Lehohla (2016) shows that 67% of 24-year-olds engaged in post-secondary education had parents with secondary schooling or less (25.8%), had an incomplete secondary school qualification (20.2%), incomplete or complete primary school (9.2%) or had no schooling (9.6%).

4 Contributors to poor economic performance - *continued*

Table 10: NDP and related targets and outcomes: education

<table>
<tr><th>NDP target</th><th>Baseline</th><th colspan="2">2015</th><th>2020</th><th>Latest</th><th>2030</th></tr>
<tr><td></td><td>(2010)</td><td>Target</td><td>Actual</td><td>Target</td><td>Actual</td><td>Target</td></tr>
<tr><td>TIMSS Grade 8 score[36]
Mathematics Science</td><td>352 (2011)
332 (2011)</td><td></td><td>372</td><td>420 (2023</td><td>n/a</td><td>500</td></tr>
<tr><td>SACMEQ (Grade 6 language and Mathematics score)[37]</td><td>495(2007)</td><td></td><td>552 (2013)</td><td>550 (2019)
600 (2022)</td><td>n/a</td><td>640 (2029 DBE target)</td></tr>
<tr><td>Percentage of Grade 3 learners with acceptable literacy[38] PIRLS score</td><td>24% (2011)
253 (2006)
295 (2011)</td><td>50%</td><td>22% (2016)
320 (2016)</td><td>75% (2019)</td><td>n/a</td><td>90%</td></tr>
<tr><td rowspan="3">Percentage of learners in grades 3, 6 and 9 who achieved 50% or more in the new National Assessment in Literacy, Numeracy/Mathematics and Science</td><td>Grade 3 (2012)
Language 56.6%
Numeracy 36.6%</td><td>60%</td><td>ANA stopped</td><td></td><td>ANA stopped</td><td>90%</td></tr>
<tr><td>Grade 6 (2012)
Mathematics 10.6%
Home Language 38.7%</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Grade 9
Mathematics 2.3%
Home Language 38.9%</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Number of matric pass Mathematics above 50%</td><td>50 195</td><td>198 000</td><td>53 588</td><td>270 000</td><td>n/a</td><td>No target developed</td></tr>
<tr><td>Number of matric pass Science above 50%</td><td>37 853</td><td>186 000</td><td>42 433</td><td>270 000</td><td>n/a</td><td>No target developed</td></tr>
<tr><td>Completion rate of youth for any qualification equivalent to Senior Certificate[39]</td><td>47% (2014)</td><td></td><td>50.1%</td><td></td><td></td><td>80-90%</td></tr>
</table>

[36] The targeted score for 2023 is proposed by the Department of Basic Education (DBE). The NDP proposes a target for the TIMSS study closest to 2030. In most cases, the NDP did not propose interim targets. The interim targets here are best estimates.
[37] These are DBE targets aligned to the NDP.
[38] The actual figure is sourced from the PIRLS 2016 test, which finds that 22% of Grade 4 learners reached the "low international benchmark" in mother tongue reading. Metropolitan, suburban and urban schools performed significantly better than township and rural schools. The 2015 ANA found that 67% of Grade 3 learners had an acceptable level of literacy, defined as achieving >50% in the ANA (South African Qualifications Authority, 2014). This significant discrepancy indicates that greater care is needed in aligning domestic and global standards. There is currently no target in respect of PIRLS. The scores for PIRLS in 2006 are for Grade 5s, and in 2011 and 2016 they are for Grade 4s. A score below 400 indicates that learners cannot read for meaning in their home language. Fifty countries are tested and only have an average score below 400. While most countries tested are high-income countries, reading for meaning is a foundational goal for economic participation in any context (Howie; Combrinck; Roux; Tshele; Mokoena; and McLeod, 2017).
[39] The 2030 target is defined by the NDP. The rest is according to the Medium-Term Strategic Framework (MTSF), as reported by the General Household Survey (Statistics South Africa, 2018) and provided by the Outcomes Facilitator of the Department of Planning Monitoring and Evaluation (DPME). The target for 2030 includes both matriculants and those completing their qualifications through a vocational channel such as a TVET college.

4 Contributors to poor economic performance - *continued*

NDP target	**Baseline**	**2015**		**2020**	**Latest**	**2030**
	(2010)	Target	Actual	Target	Actual	Target
Learners eligible for a bachelor's programme	126 371	205 000	162 374 (2016)	270 000 300 000 (2024)		450 000 (2030)
University graduates, including all degrees and diplomas[40]	153 325[41]	181 616	191 524	217 022		425 000
Artisans trained[42]	23 517	22 119	28 640	34 000		34 000
Artisans qualified per annum[43]	11 778	20 110	16 114	24 000 (2018/19)	19 355 (2018)	30 000
Trade test pass rate (percentage)	45%	56%	54%	65%		
TVET enrolments[44]	358 393	1 000 000	737 880	1 238 000 (2018/19)	657 133 (2018)	
TVET (NCV)Level 4 completion rates (After 4 years)	NCV – L4 – 42%	NCV – L4 – 42%	41.5%	65%	38.9% (2016)	75%
Workplace based learning opportunities (DHET target)[45]	62 215	45 000	107 504 (2015/16)	140 000 (2018/19)	271 704 (2018)	
University enrolments[46] Contact Distance	837 776 (2009) 521 427 316 349	1 020 190 607 691 412 499	985 212 605 480 379 732	1 070 000 (2019) 672 017 409 073	1 283 466 (2018)	1.62 million
University contact throughput rate[47]	53%		61%			75%
Engineering university graduates[48]	10 201	10 000	14 648	57 000 (cumulative 2014–2018)		No target yet. Skill forecasting is needed

[40] The NDP aims for an increase in the proportion of the population with a minimum bachelor's degree rising from 2.6 million in total or one in 17 of the population in 2001, to 10 million in total or one in six of the population by 2030. The figures in this row refer to both degrees and diplomas awarded at universities. The figures for the 2015 and 2020 targets are provided by DHET. See DHET (2018). Also see POA 2017.
[41] Centre for Higher Education Trust, 2009.
[42] National Artisan Development Support Centre
[43] The target for 2019 is the DBE's MTSF target (DHET, 2018). The target for 2030 is proposed by the NDP.
[44] See DHET, 2018.
[45] This refers to registrations for learnerships and internships (DHET, 2018).
[46] The targets for 2015 and 2019 are provided by DHET (2018). The target for 2030 is proposed by the NDP.
[47] The figure for 2010 refers to the students who entered university for a three- to four-year degree in 2004 and graduated within six years (DHET, 2017). The figure for 2015 refers to the students who entered university for a three- to four-year degree in 2009 and graduated within six years, while the figure for 2016 refers to the students who entered university for a three- to four-year degree in 2010 and graduated within six years (2000 to 2015 first time entering undergraduate cohort studies for public Higher Education Institutions, DHET, 2018).
[48] Statistics for PSET sourced from Higher Education Management Information System (DHET, 2018).

4 Contributors to poor economic performance - *continued*

Global and regional comparator studies enable us to independently assess this progress. These studies show that South Africa made significant progress up to 2016, although this was off a low base.

South Africa participates in the Trends in International Mathematics and Science Study (TIMSS) (for Mathematics and Science), the Southern and Eastern Africa Consortium for Monitoring Educational Quality (SACMEQ) (for Mathematics and reading) and the Progress in International Reading Literacy Study (PIRLS) (for reading), which compare education attainment across developed and developing economies.

A recent review (Van der Berg et al, 2020) notes that overall, there has been a gradual upward movement in the competencies of learners for the last 20 years and that South Africa rates as one of the strongest improvers globally. Nevertheless, the assessment cautions that educational improvement proceeds slowly and the 2030 target of 90% of leaners achieving minimum competency levels is unlikely.

According to PIRLS, the improvement recorded by South Africa in the 2011 to 2016 period was the third largest for all countries participating in that study. However, this is off a low base, with only 22% of Grade 4 learners reaching a minimum level of reading. In Grade 9, only 39% of learners reach a minimum level in mathematics (Van der Berg et al, 2020).

Equally for TIMSS, the data show significant improvements in the 2011 to 2015 period for mathematics for Grade 9 learners. This is further supported by evidence of improvement in mathematics performance between 2008 and 2015: the average annual increase in the number of learners achieving 50%, 60% and 70% in mathematics matric exams rose by 4.3%, 4.5% and 3.4%, respectively. Black African and Coloured learners account for a significant share of this rise, often located in township and rural schools (Moses et al, 2017; Gustafsson, 2016).

As Van der Berg et al. (2020) note, "South Africa can be considered to be on a trajectory which, starting around 2000 with a level of performance well below that of Botswana, has now caught up with Botswana and, assuming the current pace of improvement continues, will reach roughly Malaysia's level of educational quality by 2030."

Achieving the education objectives of the NDP for 2030 relies heavily on strengthening the foundation phase, and on reading comprehension in particular. PIRLS shows that Grade 4 learners in 2011 performed a bit better than Grade 5 learners in 2006, meaning that Grade 4 performance improved by just over one year of education. According to PIRLS, there was further improvement in the 2011–2016 period , although South Africa remains at the bottom of the PIRLS country rankings. Gustafsson (2017) shows that 78% of our Grade 4 learners cannot read for meaning in any language. This is concentrated in the poorest 80% of schools where the majority are at least two grade levels behind in the curriculum. This is consistent with the 2013 Annual National Assessment (ANA), where only 37% of Grade 3 school children in quintile 1, 2 and 3 schools achieved at least 50% in their home language, as seen in Table 10.

The ANA clearly shows that, by Grade 4, only 25% to 35% of learners are still on track with the curriculum, as compared to about 55% of Grade 5s (see Figure 17) Thereafter, there is a slower decline, so that by Grade 9, about 10% to 20% of school children in quintiles 1 to 4 are still on track. Hence, about 65% to 75% of learners in lower-quintile schools have their life chances dramatically stunted in their first four years of schooling. It should be noted that the ANA has been discontinued – this raises a concern about an appropriate performance measurement framework for basic education going forward.

4 Contributors to poor economic performance - *continued*

The most recent assessment noted that despite improvements, key education indicators point to South Africa being behind other middle-income countries, and its levels are more typically associated with low-income countries (Van der Berg et al, 2020).

While only 57% of youths are completing twelve years of education despite normal pre-school and school enrolments, this is about average amongst middle-income countries. The bigger concern is about the quality of education and the pathways to post-school opportunities.

In 2008, 35.2% of all bachelor-equivalent (Senior Certificate endorsement) passes were generated by quintile 1, 2, and 3 schools. This inequality in outcomes serves to lock in income distribution patterns. Much has changed since then, with significant improvement in bachelor passes in low-quintile schools. By 2016, more than half (57.1%) of all bachelor passes were generated by quintile 1, 2 and 3 schools.

The NDP proposes that, by 2030, about 400 000 university degrees be produced annually so that one in six of the population has a minimum Bachelor's equivalent degree (Van Broekhuizen; Van der Berg; and Hofmeyr, 2016).

Data show increased enrolments in 2018 but graduation rates do not show the same level of increase. While there has been some growth in postgraduate enrolments and production of PhDs, this falls short of targets, and the growing risk of insufficient senior teaching staff at universities is a concern. Overall, pending staffing and funding crises are also a concern.

There has also been a significant increase in the number of students engaged in contact learning at universities, mainly explained by the expansion of black enrolments, as shown in Table 10. For example, black student enrolments in public universities rose from 268 888 in 1995 to almost 700 000 by 2015, by which time 60% were enrolled in contact universities. Black African student enrolments rose by about 8% annually between 1995 and 2010 but slowed to 3.4% per annum thereafter. This is significant growth but black Africans and Coloureds are still under-represented (Lehohla, 2016).

Despite system-wide challenges, recent work nevertheless confirms that graduates have a significantly higher rate of employment and that the gap between black and white graduates has narrowed significantly between 2000 and 2015.

Even in this context, it is possible to strengthen the channelling of learners into post-school education and training, and employment. There is some unquantified two-way relationship between quality education output and job creation. A growing economy will absorb a more qualified and capable labour force. However, a more qualified and capable labour force creates greater incentive for firms to invest in labour-absorbing activities.

Government has placed significant emphasis on vocational training, and TVET enrolments more than doubled from 358 393 in 2010 to 688 027 in 2017 and 880 000 in 2019 (DHET, 2016; NPC, 2020; Van der Berg, 2020). The National Certificate Vocational (NCV), which was introduced in 2007, has proved to be ineffective because of poor performance of students, weak industry demand, and the high cost associated with this qualification. The NCV Level 4 completion rate was 41.5% in 2016 (DHET, 2018). Data show that particularly students who exited schooling prior to completing grade 12 struggled with the demands of the NCV (Singizi, 2020).

4 Contributors to poor economic performance - *continued*

Government met its artisan training targets of 16 114 by 2015 (19 100 in 2017 and 21 000 in 2019) but only 54% qualified (Van der Berg, 2020). Part of the challenge in graduation rates is due to not finding workplace-based opportunities. The target of the Department of Higher Education and Training (DHET) for workplace-based learning opportunities was set at 140,000 by 2018/19. This seems low relative to the growing number of post-school education and training students, particularly those in professional and vocational fields.

Also, of concern is the decline in occupational programmes offered by TVET colleges. These were identified as the primary TVET offering in the national plan for PSET. The underlying challenge is the persistent disconnect between TVET colleges and workplace related training funded through the SETAs, as well as the broader disconnect between DHET and SETA funded programmes.

The college sector continues to suffer from a poor reputation due to the low rate of employment of college graduates. Tracer studies indicate, for instance, that only half of graduates are employed within a 3- to 6-year period after graduating with generally low earnings (Singizi, 2020).

The key challenges faced by colleges include continued relative underfunding (an estimated shortfall in the 2017 MTEF period of some R52 billion), and ongoing disconnect from industry.

In contrast, skills development initiatives have shown a positive impact both in respect of throughput as well as employment outcomes. Between 2011 and 2016, some 1.4 million learners participated in some post-school education and training programme, of which 1.1 million enrolments were funded by the 21 SETAs and 330 000 enrolments funded by the NSF (see Table 11).

The total number of individuals registered for SETA-supported learning programmes has grown at an average annual rate of 13.6% between 2010 and 2016. The largest growth has occurred in skills programmes.

Table 11: Total enrolments in learning programmes (2011 – 2016)

Learning Programme	Enrolled
Learnerships	342 591
Internships	42 933
Skills Programmes	516 436
Artisanal programmes	130 876
Bursaries	61 902
Total	**1 094 638**

Source: Singizi, 2020

4 Contributors to poor economic performance - *continued*

While there is some concern that the current grant system incentivises lower level skills (because of ease of access and the shorter duration) there has been significant growth in mid-level artisanal training with some 130 000 enrolments over the 2011 – 2016 period.

The overall skills programme has seen significant enrolment increases but low throughput rates. The number of unemployed youth completing skills programmes increased from 10 631 in 2010 to 44 074 in 2018, while the number of unemployed youth completing internships has increased by more than 32% per year from 2010 to 2017. The number of workers completing learnerships increased from 9 621 in 2010 to 17 761 in 2018. Unemployed youth in learnerships increased from 25 358 in 2010 to 44 080 in 2018 (Singizi, 2020). The average throughput rate for learnerships is about 55%, while internships averaged a throughput rate of about 30%. Artisan programmes evidence shows completion rates of about 52% in five years, but this reduces to an average of only 37% who completed their training in three years. These throughput rates point to inefficiencies in the skills development system.

Across the skills development system, the data show the positive impact on improved employment outcomes. The chances of employment for graduates of SETA or NSF funded programmes increased by 15-20% while 70% of newly qualified artisans found work. An employer survey of 2 000 companies also indicated high absorption rates following the completion of apprenticeships, learnerships, and internships (Singizi, 2020).

Connecting Education and Poverty Reduction

As a middle-income country, South Africa requires a far bigger base of people with post-school education or training. In turn, PSET is the most critical asset that will open opportunities for low-income households to lift themselves out of poverty.

The NPC prepared scenarios linking education and poverty reduction prior to the Covid-19 pandemic. The aim was to reveal the possible connection between achieving NDP PSET targets and poverty reduction. The NDP emphasized targets related to university so this exercise focused on university degree and diploma graduates.

Circumstances have changed and the economy is more depressed. Nevertheless, this thought-experiment offers insight into the critical role that education plays in poverty reduction, particularly with the medium- and long-term lens required for development planning. These are critical insights to guide resource allocation and efforts towards sustainable poverty eradication and equity.
This exercise found that achieving NDP HET targets could lift 18% to 36% of low-income households out of poverty.

More specifically, if universities were on track to deliver degree and diploma graduates consistent with NDP targets by 2027, and these graduates included a reasonable proportion of bachelor pass matric graduates from low-income communities, then there would be an additional 2.064 million employed graduates who matriculated from these low quintile schools. If these graduates support only their immediate households, they would lift 18% of all low quintile households above the upper bound poverty line (UBPL). On the other hand, if these employed graduates supported

4 Contributors to poor economic performance - *continued*

the equivalent of two households or around six to seven people, they would lift about 36% of households above the UBPL.

Assumptions

- 90% of university degree graduates find employment by 2027. 85% of those graduating with a university diploma ultimately find employment. It is assumed that rising numbers of graduates would result in lower rates of employment, which is reflected in these percentages.
- The impact on households is based on lifelong impact. Remuneration for university graduates tends to rise over time, so that those employed for 10 to 19 years earn more than four times that of recent graduates (BusinessTech, 2016; MyBroadband, 2015).
- University graduates in any form of employment can easily raise their households above the poverty line, even when they are supporting two households.
- The impact of the Covid-19 pandemic on education outcomes is unclear. While the closure of schools is likely to have some impact on learning outcomes, the view of Van der Berg et al (2020) is that it will not impact substantially on the upward trends observed with respect to learning outcomes.
- However, there is concern in respect of the pandemic's impact (importantly noting the context of an already weak economy) on progress at post-school level as well labour market outcomes.
- Such an impact cannot be achieved in isolation. In the secondary education system, school throughput would also meet the NDP's targets. There would have to be better advice to black students on career and subject choices and support for channelling to labour market opportunities. Financial and social support in the higher education and training system would be needed to enable rising throughput rates.
- A revitalisation plan that restores confidence and boosts growth including steps to get back on track with required structural reforms is needed, otherwise an expansion of graduates could simply result in qualification inflation,

While progress has been made with respect to improved education outcomes, key education indicators point to South Africa being behind other middle-income countries. Youth in South Africa are about half as likely to acquire a university degree than youth in countries such as Brazil or Turkey. Approximately 19% of South African youth currently obtain any post-school qualification. In other areas however, South Africa's education statistics are at a level of comparable middle-income countries. For example, about 57% of children complete twelve years of education, which is typical for these countries. Equally pre-school and school enrolments are normal to high in South Africa. The NPC's assessment (Van der Beg et al, 2020) however cautions that given the slow progress evidenced internationally with education quality improvement, South Africa is unlikely to exceed 60% of learners achieving minimum competency levels by 2030 (against the NDP target of 90%). Current evidence also indicates that good progress has been made with respect to first time enrolments in higher education (some 170 000 obtaining a university qualification for the first time per year). Given a target of some 320,000 first-time qualifications per year by 2030, the NPC argues that the current trajectory indicates that this is feasible. However, a critical precondition is the availability of funding and the related concern in the significant increase in the average cost per student to the fiscus (Van der Berg et al, 2020).

4 Contributors to poor economic performance - *continued*

The education system faces several risks and challenges:

- Introduction of the Grade 9 national examination which introduces a major structural change into the system. While this may improve the quality at lower secondary level there is concern that it will detract from a focus on strengthening school-level monitoring systems at the primary level, as well as the need to increase Grade 12 completion rates.
- The halting of the Annual National Assessments (ANA) in 2015 has removed a key pillar of the NDP's monitoring and accountability system for schools.
- The increased allocation to higher education from 2018 and the introduction of 'free higher education' has resulted in significant spending improvements per student, notably historically disadvantaged ones. However, this has reduced the fiscal space for significant enrolment expansion as envisaged by the NDP.
- Overall spending on post-school education in South Africa remains underfunded given the post-school graduation targets. There is over-reliance on public spending with little facilitation for private and foreign involvement in the sector. Investment and participation of the private sector and foreign institutions could be encouraged to diversify funding sources and inject dynamism.
- The Covid-19 pandemic has introduced risks that are still uncertain. Certainly, it could have an impact on learning for those in school and PSET in 2020. Inequitable access to broadband, digital education materials, remote and home learning could further entrench inequalities. The Covid-19 pandemic period has revealed shortcomings in school connectivity and regular and reliable connectivity for the majority of households (see section 4.4). The higher education sector is well connected with SANREN but even the better resourced institutions were shown to be poorly digitally enabled when it came to online learning.

Top priorities to achieve the NDP's basic education objectives

Priority 1: 'Reboot' the NDP's focus on accountability in the schooling sector. Central to this is the need for a 'results-oriented mutual accountability system', centred around the school and the school principal. This should include the implementation of the new rules for school principal recruitment, as well as simple annual reports which assess the learning outcomes trends of schools, and how schools compare to other socio-economically similar schools.

Priority 2: Improve and monitor reading in the early grades. The initiative to teach reading better in primary schools and enhance classroom practices must be strengthened. This must focus both on teachers and also mobilise parents in the push to eliminate functional illiteracy among children. A new universal testing system, replacing the ANA, will be essential to ensuring progress in this critical area.

Priority 3: Insist on better monitoring of sectoral trends. The monitoring of trends and progress in the education sector is often weak. Inaccurate, unclear or missing information is common. This compromises not just government planning work but also the public debates which influence education policy-making. Investments are needed to modernise and strengthen information systems. Existing data, leveraging the South African School and Administration Management System (SASAMS) and Data Driven Districts initiative, needs to be used more effectively. The contributors to education improvement over the past decade are not well understood and therefore

4 Contributors to poor economic performance - *continued*

might not be replicated. Monitoring trends and understanding causal relationships will be key to making further rounds of progress.

Priority 4: Ensure all schools have internet and supportive services, along with investment in digitally enabled teaching and learning practices. Government needs to clarify exactly what the concept 4IR means for the education sector, with the understanding that the fundamentals will be delivered. At a minimum, the SA Connect targets for school need to be met more meaningfully, with only 30% of schools connected to the internet by 2019 (see section 4.4).

Top priorities to progress towards the NDP's PSET objectives

Priority 1: Strengthen the navigation of students from low- and middle-income communities from school through PSET and into work. The fast-growing cohort of high school graduates from low- and middle-income communities need support to ensure they successfully channel into post-school education opportunities, complete those studies and channel into work opportunities.

Priority 2: Improve system coherence to provide a continuum of vocational skills including TVET and higher education that is responsive to the demands of industry. In order to ensure that the provision of vocational skills development (VSD), which include the continuum of vocational skills, from TVET through to higher education, is responsive to the demands of industry, it is necessary to embed decisions about VSD programming, within the context of sectoral TVET, HET and Skills Development strategies into industry sector masterplans.

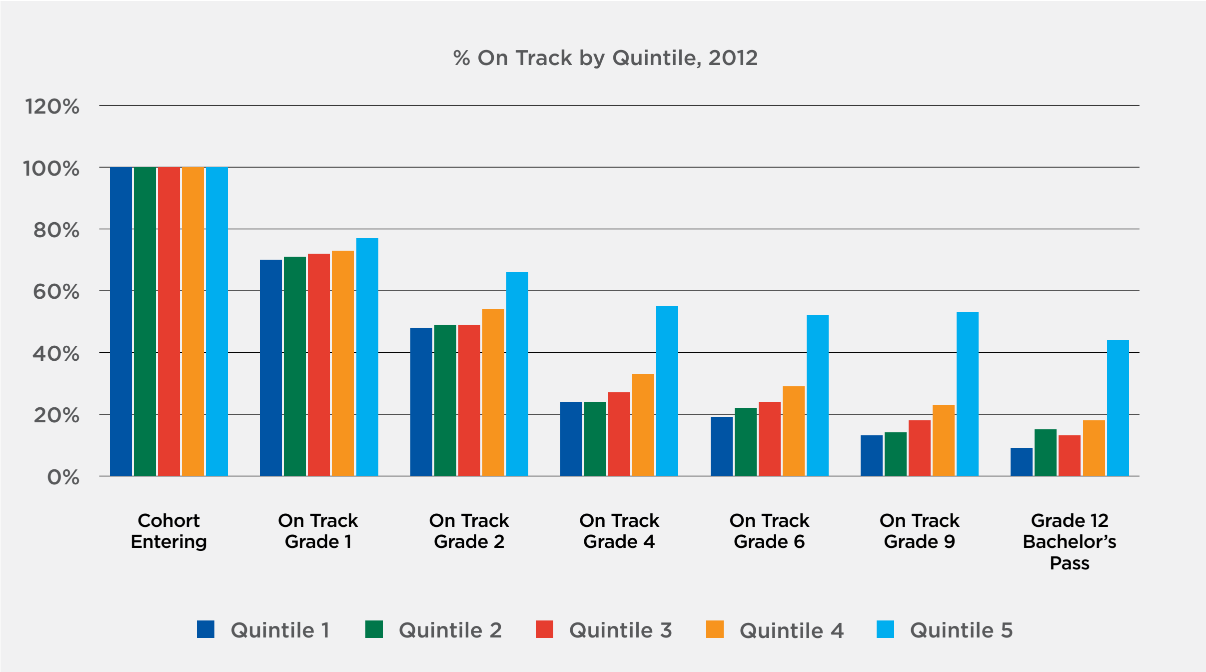
Priority 3: Deepen relationships between TVETs, HETs and public/private employers. At a sectoral level, effective relationships between TVET (public/private and workplace providers), HET institutions and companies must be strengthened to realise this alignment. Such alignment requires flexible arrangements (including the recognition of the value of workplace providers that can offer a significant proportion of the qualification) as well as programmes and qualifications that accommodate/support changing technology and workplace requirements. However, for this alignment to be realized, the conditions will need to be created in colleges to support effective delivery of programmes and qualifications.

Priority 4: Make CET colleges more effective. CET colleges should play a specific role in supporting township and village economies, including a focus on second chance matric. This will require a consideration of the most effective mechanism to unlock demand in a township/village context and then aligning skills to this demand, as well as intensive support to CET colleges to introduce and deliver programmes that meet this demand. The unlocking of demand in the township/village economy must uncover the potential of the informal sector to grow, train and create sustainable work for young people.

Priority 5: Attend to a sustainable funding model. The financial model needs to balance depth and breadth, support low income but also 'the missing middle', and should encourage public-private partnerships. The mechanics of delivering bursaries to students continues to need attention.

4 Contributors to poor economic performance - *continued*

Figure 17: Proportion of learners on track in curriculum in various grades in ANA 2012, and Bachelor passes in Grade 12, by school quintile



Source: Van den Berg, 2015.

4 Contributors to poor economic performance - *continued*

Table 12: Education outcomes by quintile – foundation years and matric

Quintile	Grade 3		Grade 5	Grade 6		Grade 12						
	V-ANA 2013		TIMSS-N 2015	V-ANA 2013		Matric 2014						
	% passing Maths (50%+)	% passing Home Language (50%+)	% reaching Low International Maths Benchmark	% passing Maths (50%+)	% passing Home Language (50%+)	% taking Maths	% passing Maths (40%)	% passing Maths (60%)	% taking Physical Science	% passing Physical Science (40%)	% passing Physical Science (60%)	% receiving a bachelor's pass
Q 1	45%	37%	20%	13%	55%	44%	10%	3%	33%	9%	2%	17%
Q 2	40%	32%	26%	15%	54%	42%	10%	3%	31%	9%	2%	19%
Q 3	49%	37%	31%	16%	59%	40%	11%	3%	30%	9%	3%	22%
Q 4	59%	44%	57%	30%	73%	39%	14%	5%	29%	11%	4%	28%
Q 5	80%	66%	79%	61%	91%	45%	27%	13%	31%	19%	9%	49%

Source: Spaull, 2018

Notes: These are Spaull's own calculations on V-ANA 2014 and Matric 2014 microdata. Data on TIMSS-N 2015 is derived from HSRC (2017)

4 Contributors to poor economic performance - *continued*

Table 13: Pass rates by quintile in the 2016 matric exam

	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
Total number who wrote matric	134 409	133 580	144 963	74 128	96 600
Percentage of students that wrote exam	23.0%	22.9%	24.8%	12.7%	16.6%
Total number who passed	83 954	89 629	99 098	58 955	88 967
Percentage that passed	62.5%	67.1%	68.3%	79.5%	92.1%
Achievement of those who passed:					
Higher certificate	19.5%	19.7%	18.2%	15%	7.8%
Diploma	25.8%	28.0%	29.5%	35.5%	31.1%
Bachelors pass	17.1%	19.4%	20.6%	29%	53.2%
Bachelor's pass (2008)	8.0%	9.3%	12.0%	22.0%	53.0%
Number of bachelor's passes	23 016	25 926	29 936	21 529	51 389

Source: DBE, 2016

Note: The 2008 figures are sourced from Van Broekhuizen et al, 2016.

4 Contributors to poor economic performance - *continued*

Table 14: University enrolments 1986–2015

	1986	1995	2000	2005	2010	2015
			Total			
Total ('000s)	268	542.6	571.8	731.9	885.5	972
Black African	54.9 (20.5%)	268	340	446	595	696 (71%)
White (%)	66.0%	38.5%	28.5%	25.3%	20.1%	16.6%
Contact universities						
Total ('000s)			348	482	546	605
Black African			195 56.1%	290	354	419 69.2%
White (%)			30,9%	26,1%	21,7%	17,8%

Source: IRR, 2018 pg. 58 (for Total); DHET provided figures for contact university enrolment.

4.3.2 AN ADAPTIVE AND RESPONSIVE LABOUR MARKET

Employment is the most important source of income available to households for moving out of poverty and their progressive accumulation of physical and human capital assets from one generation to the next. However, apartheid locked out the majority of South Africans from participating in labour markets effectively by limiting their education, skills and mobility. That legacy continues to be reflected in the levels of participation and remuneration in the economy and in differential rates of labour market participation and unemployment across different races and age groups. As noted in section 3.1, despite their achieving more rapid increases in aggregate employment since 2008, the unemployment rate for black Africans in 2019 was still almost six times higher than for Whites. Significant portions of our youth also continue to find themselves unable to enter, and to participate in, the labour market. Between 2008 and 2019, 530 000 fewer people between the ages of 15 and 34 were employed in the economy despite employment for people older than 34 increasing by 2.3 million over the same period. In 2019, 63% of South Africa's unemployed were younger than 35, and the official unemployment rates for people in the 15 to 24 and 25 to 34 age groups were 57% and 35.4%, respectively. The proportion of people employed in SMMEs also declined over this period.

The NDP recognises the need for a labour market that is more adaptive and responsive and makes proposals aimed at helping young people get into the labour market, appropriate regulation for small businesses, and reducing tension and conflict between employers and employees. It also notes the need for life-long training for existing workers that facilitates their continued employment and advancement.

4 Contributors to poor economic performance - *continued*

But what constitutes a responsive labour market?

One key aspect must clearly be its ability to provide both the quantity and quality of skills required by a changing economy. This requires effective communication within the skills system between employers and PSET providers, as well as incentive structures that facilitate efficient responses. It also needs an inclusive and accessible education system that delivers quality outcomes to provide a foundation for subsequent learning.

A second component relates to the efficiency of the search process. Prospective employers and jobseekers need to be able to find one another in ways that do not impose high search costs on either party. This is particularly important for new entrants into the labour market who may not have the benefit of established networks that reduce the costs of identifying employment opportunities.

A third key element of a responsive labour market relates to the how it facilitates bargaining around remuneration and conditions of employment, and the efficiency with which any disputes are resolved. South Africa has a long history of adversarial relations between employers and workers which has imposed high costs on the economy in terms of productivity and income losses. Labour market institutions such as the CCMA and Labour Courts have been largely focused on dispute resolution which means that they tend to become involved once negotiations have broken down and a dispute declared.

The final component of a responsive labour market is the creation of a regulatory framework that protects the rights of workers and employers and is well understood by all participants. It should not impose undue compliance costs that are beyond the capabilities of the different parties and which thereby serve to discourage employment. This applies especially to SMMEs, which are expected to become the most significant source of employment growth.

Within this context, the NDP advocates several actions aimed at improving the responsiveness of the labour market. These include:

- The development of an education and skills system that is responsive to the needs of employers and in which they are appropriately invested. This system should develop the necessary skills to allow work-seekers access to the labour market and to facilitate their subsequent advancement.
- Improving marketplace matching and transitions, especially for young people – who have become increasingly 'locked-out' of the labour market. In this regard, the Plan proposes 'active labour market policies' including (but not limited to) placement subsidies for private sector placement agencies, free driver training for school leavers, and the youth employment tax incentive (YETI).
- Enhancing the capacity of the CCMA to reduce the adversarial relationship between employers and employees and promote industrial harmony through education of the parties concerning their rights and responsibilities and by building the capacity of both parties for productive engagement. Similarly, the NDP recognises the need to improve the capacity of other labour market institutions, including the Labour Court, Bargaining Councils and the Labour Inspectorates to fulfil their respective functions.

4 Contributors to poor economic performance - *continued*

- The development of better dispute resolution mechanisms in relation to wages and conditions of employment and a labour relations environment that is conducive to productivity growth. This is aimed at ensuring the expansion of employment at affordable wages, while also recognising the important role of a 'social wage'.
- The creation of an ethical, capable, and developmental state, in which labour relations are conducted in a manner that supports the delivery of high-quality public goods and services.
- The design of regulations that are realistic to the capacity of small business, in relation to issues such as dismissal, employment equity and skills development.

So, what progress has been made? A comprehensive review highlights the following:

- Uneven progress in the PSET sector as a result of serious challenges in the provision of post-school education and training – especially in the artisanal and TVET sector. The biggest shortcoming is that there is still a weak interface between PSET institutions and employers and that these institutions are not held sufficiently accountable for ensuring alignment with the skills needs of employers.
- Reforms aimed at providing work-seekers (particularly the youth) with support and assistance with placement, such as the EPWP, ESSA and YETI, have largely failed to absorb unemployed, discouraged and excluded work-seekers on the scale necessary to make a material difference.
- Some progress in reducing the regulatory compliance challenges faced by small businesses. However, the Covid-19 pandemic will require greater attention to their skills development and unemployment insurance needs.
- The introduction of a limited number of reforms aimed at strengthening labour market institutions such as the CCMA, and Labour Courts. The capacity of the Labour Inspectorate to enforce the National Minimum Wage Act has also been boosted. However, these institutions remain under-resourced for the roles that are required to perform. Measures have been taken to clarify dismissal provisions in the Labour Relations Act and to simplify probation rules.
- The expansion of workplace protections to vulnerable workers operating in the formal economy. However, there are still challenges around how these protections can be extended to the informally employed, migrants and so-called 'platform' workers.
- Deepening tensions in the public service between unions and the employer mean that reforms to public sector bargaining and wage-setting mechanisms around critical issues such as pay progression, benefit structures and OSDs continue to be difficult. This is further discussed in section 7.

4 Contributors to poor economic performance - *continued*

Priority actions for an adaptive responsive labour market

The NDP envisages a more responsive labour market in the service of inclusive growth. The priorities in this regard include:

- The development of an education and skills system that is responsive to the needs of employers and in which they are appropriately invested. Work-seekers must be able to gain the necessary skills to access the labour market and to facilitate their subsequent advancement. Expecting this to be done outside of the traditional schooling system imposes excessive costs on employers (and on work-seekers) and acts as a disincentive to employment – particularly of the youth. This is discussed in section 4.3.1.
- Strengthening labour market matching services, especially stimulating private provision and innovation aimed at enabling youth employment.
- The development of better dispute resolution mechanisms in relation to wages and conditions of employment and a labour relations environment that is conducive to productivity growth. Enhancing the capacity of the key labour market institutions such as the CCMA, the Labour Court, Bargaining Councils and the Labour Inspectorates to fulfil their respective functions.
- Labour regulation designed to enable compliance by small business in relation to issues such as dismissal, employment equity and skills development.
- Extension of social protection to vulnerable and non-standard workers, to cover possible contributory schemes, occupational health and safety provisions and skills training opportunities to those 'informally' employed, Gig-economy workers, and those who are unemployed.
- Sustainable labour arrangements in the public sector that attend to pay, benefits, staff structure and performance.

4.4 Digital readiness for the future[53]

The NDP envisages that, by 2030, a seamless information infrastructure would be universally available and accessible, at a cost and quality at least equal to South Africa's peers and competitors. The increasingly foundational role of digital transformation meant that the benefits of becoming a fully digitally enabled society and economy would outweigh the costs.

Communication more broadly (enabled through digital infrastructure) is the foundation of an inclusive market economy, a key facilitator of citizen engagement and increasingly a critical divider of those who can readily access services. The digital divide is not only about inequality in access to technology but about exclusion from services, education and economic opportunity.

The aspirations of the NDP were translated into the National Broadband Plan (2013) and SA Connect led by the Department of Telecommunications and Postal Services. Table 15 lays out 2020 targets set by SA Connect, in addition to other targets that would be consistent with the NDP.

[53] A supporting paper on digital readiness was prepared for the NPC by Gillwald et al (2020). The reader is also guided to recent comprehensive work prepared by Genesis (2020f) for the South Africa in the Digital Age (SADA), the report of the Presidential Commission on 4IR (PC4IR 2020), the World Bank (2019) and the forthcoming ICT Masterplan.

4 Contributors to poor economic performance - *continued*

South Africa tends to perform well on infrastructure development indices but poorly in demand-side indices including internet usage, skills and digital awareness (Gillwald et al, 2020). South Africa slipped down the ITU ICT Development Index from 78th to 92nd between 2002 and 2018. The Network Readiness Index (NRI, 2020) ranks South Africa 76 out of 134 countries. Twenty-five upper middle-income countries (out of 37) and three lower middle-income countries rank above South Africa including countries such as Malaysia, China, Thailand, Serbia and Vietnam. Even though the NRI shows that South Africa's ranking is consistent with its level of national income, its slippage in rankings is reflective of its decelerating growth and dynamism, while other developing countries have powered ahead.

Digital Policy Designed for Employment Creation

In a country with high unemployment, digital enablement will create some concern for labour displacement. The NDP was written in 2011, a lifetime ago relative to the very fast digital progress made globally. Studies indicating significant labour displacement have been shown to be overstating this potential. Nevertheless, some thinking is needed to make digital policy and regulation appropriate to South Africa's development needs.

The future of digital economies and societies is still uncertain. This is why the NPC chose to focus on digital readiness. What we know is that there is a greater chance of employment and shared prosperity if:

- The population is e-enabled to the fullest meaning – with internet readily accessible at will, with a population that is e-savvy and able to work in digital contexts.
- Business of all sizes are digitally enabled – from informal to SMEs to corporate.
- Government is fully digitally enabled and taking advantage of the significant opportunities to improve access to service and improve its efficiency in delivery.
- There is capacity for innovation and adaptation.

The World Bank (2020 found that an assessment done in 2013 showed that increased broadband investment of R 65 billion in the following 10 years could create more than 400,000 jobs and add R 130 billion in the GDP of South Africa (Katz 2013). Policies with strong monitoring and evaluation will be needed to reduce risks from increased automation and digitization. For example, doubling the rate at which the workforce acquires skills needed for the 4IR could reduce the proportion of at-risk-jobs from 33 percent to 14 percent by 2025 (Accenture 2018). And as recently noted in South Africa's Doing Business 2018 report for eight major cities, digitalization can remove red tape through government platforms that enhance the business environment (quoted from World Bank 2019).

4.4.1 PROGRESS ON DIGITAL INFRASTRUCTURE COVERAGE

South Africa has performed well in respect of network coverage. By 2019, national population coverage of 4G/LTE was almost 93%, a dramatic improvement from 53% in 2015 (ICASA, 2020). Urban areas were fully covered with 4G/LTE and most provinces had rural coverage of 4G/LTE exceeding 80%. (ICASA, 2020).

4 Contributors to poor economic performance - *continued*

In 2013, 86% of the population lived within 10 km of a fibre access point. Since then, there has been further fibre rollout, including to base stations in the delivery of LTE. Nevertheless, fibre tends to be located in urban areas, with significant network duplication.

International bandwidth usage more than doubled between 2016 and 2018, enabled by competition in international submarine cables that expanded capacity and reduced prices.

South Africa ranks 96th and 60th globally in its fixed broadband and mobile download speeds, respectively. (see ICASA, 2020 and OOKLA Speedtest Intelligence). While uncompetitive in fixed broadband speeds, South Africa's mobile upload and download speeds compare favourably with BRICS and many other peer countries.

Between 2015 and 2019, there was investment in telecommunications of about R177 billion, driven by the private operators (ICASA, 2020). The public sector has lagged rather than led in this domain. This is a significant explanation for poor progress in digital inclusion: the network is available but prices are high, and the last mile is required for lower income communities and to public services.

4.4.2 PROGRESS ON DIGITAL ACCESS

SA Connect envisaged that 90% of the population would have access to broadband of 5Mbps by 2020. There has been significant expansion in access to mobile communication and internet over the past decade. However, South Africa falls well behind peer developing countries mainly due to metrics on access and government service. This is a challenge that can be resolved with deeper private and public sector commitment since there is excellent network coverage and smartphone penetration.

The proportion of households that had access to a cell phone in their dwelling rose from 76% in 2011 to 90% by 2018 (Statistics South Africa 2012, 2020). More dramatically, the percent of households that had at least one member with access to the internet rose from 33% in 2011 to 64.7% by 2018, as shown in Figure 18[54].

This is below internet penetration in other upper middle-income countries such as Turkey (74%), Malaysia (84%), Mexico (70%), Vietnam (69%), Morocco (74%) and Brazil (70%) in 2018.[55]

Mobile connectivity explains almost all of this improvement, as shown in Table 16. Only a very small proportion of households had access to internet in the home (10%) and/or access to an internet café or school facilities (10%) and only 16% could access it at work.

Access to the internet is highly uneven across geographies ranging from the highest in Gauteng at 74.6% internet access to the lowest in Limpopo at 46.2%. The highest home access is in the Western Cape at 25.8% but marginalised provinces such as Limpopo and the North West have home access rates as low as 1.7% and 3%, respectively as seen in Table 16 (Stats SA, 2017).

[54] Research ICT Africa estimates that South Africa had an internet penetration rate of 53% by 2019 (Gillwald et al, 2020). The ITU says 61.8% of households had access to the internet in 2019, up from 24% in 2011 (https://www.itu.int/net4/ITU-D/icteye/#/compare).
[55] World Bank/ ITU Telecommunications database, https://data.worldbank.org/indicator/IT.NET.USER.ZS?name_desc=true

4 Contributors to poor economic performance - *continued*

Smartphone penetration has deepened significantly, improving from 43.5% to an estimated 65% between 2016 and 2019.[56]

In 2019, about 85% of the 97 million mobile voice subscriptions were pre-paid, and this is the main source of subscription growth. There were about 78.2 million mobile cellular phone data subscriptions in 2019, up from 46.5 million in 2015 (ICASA 2020). Fixed broadband subscriptions tripled to about 3.1 million between 2015 and 2019, led by expansion in fibre to the home (ICASA, 2020).

Affordability is significantly affected, in a context where most people have pre-paid subscriptions which are significantly more expensive per unit than are post-paid. For example, in 2020, a data bundle of 1G cost R100 to R 120 if pre-paid as compared to R 40 to R79 if post-paid (ICASA, 2020). South Africa performs well overall on affordability of mobile broadband. In 2017, the average cost of 1 GB of data costs 1.2% of gross national income per capita, below the ITU's Affordability Index of 2%. However, these averages are poor indicators in a country with extremely high inequality, with 60% of the population paying more than the affordability benchmark of 2% of GNI per capita. Figure 19 shows that the bottom 40% of income earners would have to pay on average 6% to 12% of their income to buy 1 GB of data. Figure 20 shows that only those living in the urban formal settlements have incomes sufficient to achieve the ITU Affordability Index benchmark.

4.4.3 GOVERNMENT SERVICES DIGITALLY ENABLED

While the NDP did not emphasize digital public platforms, they are increasingly essential to achieving the its objectives. Broadband has the potential to enhance the provision of government services including e-health, e-education and e-government. Importantly, the digitisation of government services could be used to improve the quality of service delivery, reduce costs to the fiscus, and access marginalised and remote areas and communities. E-services have the potential to reduce the cost of living of citizens, for instance by reducing or eliminating the need to travel and queue for many government services. They could offer a key accountability and feedback loop mechanism through real-time data tracking and other methods.

SA Connect (approved 2013) and the National e-Government Strategy (approved 2017) offer targets and a plan for digital transformation. Yet, progress has been slow and funding has been limited.

After a number of false starts in implementing SA Connect, the strategy shifted to piloting broadband roll out to public buildings in National Health Insurance sites located in eight District Municipalities and seven provinces. This was to be implemented by Broadband Infraco (BBI) and the State Information Technology Agency (SITA). This 'Phase 1' was initiated in 2017/18 and was meant to connect 6 135 government buildings and, to date, has actually connected 970 government sites – mainly clinics and schools. It is not clear whether these sites are operational and/or what impact there has been. A further 35 211 government sites still need to be connected to achieve SA Connect. It is estimated that doing this would cost a minimum of about R30 billion and potentially up to R80 billion, depending on the pace and design of the programme. Slow delivery

[56] ICASA (2020) estimates 91% smartphone penetration but this is a calculation based on the number of phones in circulation relative to the population. Alison Gillwald of Research ICT Africa estimates 60% to 65% using different methodologies, which refers to the number of people who have a smartphone, whether or not is used to access the internet.

4 Contributors to poor economic performance - *continued*

and constrained finances have resulted in the SA Connect budgets being cut dramatically with about R 581 million allocated over 2020/1 to 2022/3.

The Universal Service Access Fund (USAF), now rolled into the new Digital Development Fund (DDF), was meant to drive an accelerated delivery of digital services to underserved communities. It has not made a mark on this goal: its expenditure is simply too small at less than R 300 million annually, and its 208/19 Report says it failed to achieve on 90% of its objectives. It has suffered with governance challenges similar to those found in other state-owned entities and was in administration.

ICT procurement is fragmented with uncertainties in respect of mandates and responsibilities. The approach to investment in connecting public buildings and in enabling digital services and platforms is uncertain and confusing. The capabilities for oversight and implementation of digital public platforms is very limited. The result is that there are targets, policy frameworks, plans and commitments but very limited progress in critical deliverables. Important foundational work has been done to initiate open data policy, government data systems, national back office digitisation, a national ID system, and movement to a National e-Government Central Portal. The Covid-19 pandemic has pushed some processes forward. Interesting partnerships such as those surrounding CovidConnect, CovidAlert and GovChat.org have emerged.

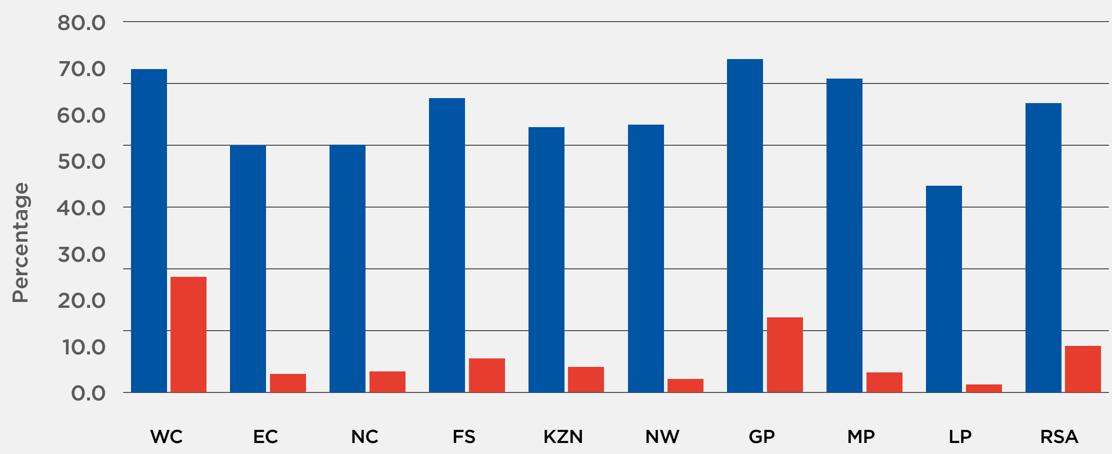
Most notable is the delay in digital migration and spectrum re-assignment which, once implemented, could have the effect of improving quality and reducing mobile pricing. The spectrum in 700Mhz and 800Mhz bands still needs to be migrated from broadcasting. The global deadline for this migration was 2015. South Africa has not released sub-Gig spectrum since 1993, nor mid-band spectrum since 2003.

The National Broadband Plan should have seen delivery on SA Connect targets, especially in respect of connecting public buildings. It appears that the Western Cape progressed in this regard, as it centralised spending and procured this roll-out. Table 15 offers SA Connect targets, and in this regard only a very few indicators were available to report on outcomes. As an example, 100% of schools should have been connected by 2020 but only 30% were reached with no actionable information available on the quality of that connectivity or what is being done with it. There are a number of other critical areas for which there is insufficient information to assess progress. For example, there is a move to introduce interoperability of services and of a central government portal but with lack of clarity on the roadmap or its progress.

Government may need to re-assess the delivery model for digital services. There is a notion that the state-owned ICT enterprises will deliver on connectivity and yet these entities are weak and very little has progressed. There is significant opportunity in a competitive market of strong ICT providers to pursue a national broadband plan that connects public buildings and digitally enables public services through the stimulation of alternative models. The Western Cape's procurement of services from Liquid Telecom for broadband roll-out is one model. Tshwane's 18-year Build-Operate-Transfer agreement with Altron, funded by ABSA and the DBSA, with the metro acting as an anchor tenant, is another. The objectives of a Wholesale Open Access Network might be better served with stronger wholesale regulation and fair access for smaller players.

4 Contributors to poor economic performance - *continued*

Figure 18: Percentage of households with access to the internet at home, or for which at least one member has access to, or used the internet by province, 2018



	WC	EC	NC	FS	KZN	NW	GP	MP	LP	RSA
Anywhere	72.,4	55,3	55,4	65,8	59,4	58,9	74,6	70,2	46,2	64,7
At Home	25,8	4,1	4,6	7,6	5,6	3,0	16,7	4,4	1,7	10,4

Source: Stats SA, 2017, General Household Survey, 2018

4.4.4 DIGITAL SKILLS AND CAPABILITIES

A population that has affordable access to the internet is the foundation for a nation's digital readiness. Weak ICT skills are a significant contributor to South Africa's slippage in the ITU and NRI rankings. South Africa ranks 116th out of 140 countries in digital skills according to the WEF Global Competitiveness Report.

The opportunity cost is great in a context of such high unemployment and low economic growth. There are critical skills shortages that constrain ICT related investments. For example, the World Bank (2019) notes that 25 jobs listed on the Department of Higher Education and Training's (DHET) occupations in high demand are in ICT fields, and LinkedIn data shows that 10 out of the 11 most in-demand skills are in the ICT sector. Yet, 3,000 of the 10 most sought-after ICT jobs are not filled. The education system is a critical lever in this regard, from foundation phase through to technical, vocational and higher education.

There is great value in leveraging the basic education system in three ways. First, the system houses all children in South Africa at least up to Grade 9 and is a chance to influence their digital capabilities. Second, in Covid-19 and beyond, digital connectivity will be critical for education especially when more is invested in teaching and learning methodology. Third, there are about 23 471 schools distributed around the country which can act as learning centres and community WiFi zones.

4 Contributors to poor economic performance - *continued*

SA Connect aimed to have 100% of schools connected with 1Gbps by 2030. By 2015, half of all schools should have had internet and by 2020, 100% of schools should have had 10 Mbps. There has been very little progress in achieving these targets. In 2013, 25% of schools had internet, lifting to about 30% of schools in 2020, as shown in Table 15.

It is technically possible to reach all schools within the next one to two years as the majority of schools are within reach of a fibre or LTE network, and deep rural communities can easily be covered with other options such as microwave or satellite. A mapping of schools and available network shows that fibre and LTE networks should be able to reach 80% of schools (ALTAdvisory et al 2020). In urban areas, there is a very close match between the pathway of fibre networks and the clustering of schools. This close match was found to be true in Gauteng, Limpopo, KZN and the Eastern Cape (ALTAdvisory et al 2020).

The approach to school internet rollout that involves Mobile Network Operators (MNOs) delivering network to school as a licence obligation is not working. ICASA's requirements are not consistent with SA Connect, in that they only require 1 Mbps. Moreover, while there are interesting and useful MNO interventions, the reality is that they are not achieving the required reach in the targeted period.

The most successful model to date involves the state procuring the service. In particular, the Western Cape rolled out broadband to 1200 of 1441 public schools, delivered by a private provider and procured through a competitive tender.

Academic institutions and campuses are well served by SANREN, South Africa's national research and education telecommunications network. It is operated by the Tertiary Education and Research Network of South Africa (TENET) on a non-profit basis under a collaboration agreement with the Council for Scientific and Industrial Research (CSIR). The network is specifically important for running big science projects at universities and research institutions.

Nevertheless, the translation into ICT degrees is weak. For example, only 41% of students that enrolled for undergraduate diplomas or certificates and for three-year Bachelor's degrees in ICT-related subjects completed their qualifications six years later. Curricula in PSET are often outdated and not responsive to industry needs (World Bank, 2019).

4.4.5 DIGITAL BUSINESS

There are three essential components to assessing how South African businesses are responding to digital opportunity. These include digitalisation of businesses, e-commerce and digital financial services, and digital entrepreneurship. The NDP did not give significant attention to these but any economic plan must now do so.

South Africa ranks well in the digital sophistication of businesses. For example, the NRI (2020) ranks South Africa 49th out of 134 countries in its 'business use of digital tools'. This capacity and transformation is, in part, reflected in the rapid expansion in Machine-to-Machine (M2M) mobile subscriptions, which grew from almost 4.4 million to 7.9 million between 2015 and 2019 (ICASA, 2020). M2M connections are used by networked machines and devices, such as smart meters, navigation devices, consumer electronics, or cars, amongst others.

4 Contributors to poor economic performance - *continued*

The traditional banks are rapidly digitizing but there are also new sources of financial services. In 2017, 60% of South African adults reported having made or received a digital payment in the past year (World Bank, 2019). However, the regulatory system requires 'non-banks' to offer services jointly with a bank, which limits their ability to disrupt and bring costs down.

Special attention will be needed to draw low-income households into electronic and mobile payments in South Africa. Currently there is a reluctance to do so and a relatively heavy reliance on cash. This may be due to the cost of data or simply for lack of trust.

Regionally, there is an opportunity arising as a result of the Integrated Regional Electronic Settlement System (SIRESS), launched by SADC in 2014, with the SARB acting as the operator and settlement agent. This enables low-value payment streams typical of cross-border remittances and therefore enabling of financial inclusion. The World Bank (2019) notes that: "In this context, a low value credit transfer scheme is being implemented to facilitate bank-to-bank transfers, bank-to-non-bank transfers and non-bank-to-non-bank with settlement taking place via banks. The direct participation of banks and non-banks in this scheme will be a positive development that will facilitate interoperability, promote competition, increase beneficiary reach and reduce cost of transacting."

E-commerce and digital platforms are a fast-growing segment of the South Africa economy. They play an important role in digital entrepreneurship and unlocking market access for SMEs. Vibrant digital entrepreneurship is a key pillar of a strong digital economy, leading to new products and services, business models, markets, and in the end growth and jobs.

It is estimated that private electronic platforms may currently employ around 1.3 million workers in South Africa. Revenues in the ecommerce market were estimated at US$3.3 billion in 2019, with annual growth rates projected of around 10% per annum (World Bank, 2019).

South Africa is the main entry point in Africa for major global digital businesses including Google, Amazon Web Services, IBM Research Lab, Uber, Netflix, Spotify and Airbnb (World Bank, 2019). There is evidence of emergent capability in a tech eco-system, with tech start-ups having raised over US$ 100 million (World Bank, 2019). However, there is also concern that the more successful ones, such as Thawte, Fundamo, Nimbula or GetSmarter exited. This is a challenge for many small companies with IP in South Africa and is not unique to the digital space. The stakes are high for a developing country that seeks to develop capacity and home-grown leaders in a world dominated by global web services.

Pure e-Retail is still a small (about 2%) share of the market but online sales have generally risen since the Covid-19 pandemic lockdown in March 2020.

Stimulating digital entrepreneurship as well as rapid job creation in the digital economy requires three essential components: broadband access, digital skills for work, and digital demand generation (through education and the digitisation of public services).

However, vibrant digital entrepreneurship ecosystems are needed to help digital entrepreneurs flourish and encompass support organisations (such as accelerators, incubators, innovation hubs and co-working spaces) and early stage financing (such as seed, angel, and venture capital and

4 Contributors to poor economic performance - *continued*

grants). Furthermore, vibrant ecosystems require specific skills (both technical and business ones), access to markets, and an overall conducive business environment that motivates the creation and use of novel digital technologies.

Priorities for driving digital readiness for the future

South Africa has excellent national coverage of fibre and 4G/LTE. There is a strong base of private companies that continue to invest, maintain, upgrade and innovate. Top priorities to ensure national readiness for a digital world include achieving universal broadband access, digitisation of government services, deepening ICT skills and capabilities, and enabling e-commerce, digital finance and digital entrepreneurships.

Identify workable operating model to achieve SA Connect objectives.

- The model that relies on SOEs to implement SA Connect is not working, nor is a model that relies on spectrum licence obligations. Universal access and public sector connectivity should shift to one that relies on government as procurer and regulator but perhaps not as implementer. The Western Cape and Tshwane offer two different examples. Government may want to consider identifying a few top priority pilots where PPPs are used to introduce overarching digital modernisation. Examples include policing, health, education, water or smart cities.
- Sustainable funding models are needed to deliver on SA Connect commitments to low-income individuals and households, to communities and to public institutions. Government funding is currently insufficient to deliver on SA Connect targets and is likely to become even more constrained.
- The mobilisation of private funding in PPPs and similar arrangements could be encouraged. This would require that PPP frameworks be strengthened and be made more easily implementable than at present. It would also require funding and procurement frameworks to enable government to commit as an anchor tenant over the long term.
- A fund dedicated to accelerating internet access for under-served communities would be beneficial. For it to succeed, it would need to be properly resourced (by the state but also as the main service obligation in a spectrum award), effectively governed (ideally with private sector and DFI participation), and appropriately designed. The DCDT's proposed approach for the DDF is to be supported, in not delivering directly but instead facilitating in offering inter alia: incentives for de-risking private sector investments in rural areas and accelerating broadband delivery in peri-urban areas; demand-side schemes for subsidizing low-income consumers' communication costs; and innovative use of unlicensed spectrum (Wi-Fi, TV whitespace).
- The digitisation of government services needs to be accelerated. Government must urgently implement the National e-Strategy and e-Government Strategy and Roadmap approved by Cabinet in November 2017. This requires clear role identification and approaches to ensure interoperability, and data sharing. This should include the rationalisation and streamlining of local and provincial government broadband and related ICT initiatives, with clarification of mandates, roles and responsibilities. The current institutional approaches are not yielding sufficient progress and require review and determined commitment to capacity development.

4 Contributors to poor economic performance - *continued*

This would include a commitment to institutional stability, good governance, and appropriate capacitation in senior appointments. Transparent monitoring and evaluation of digital services in the public sector is needed.

Migrate and release high-demand spectrum. This is long overdue causing constrained network capacity and higher mobile prices. It needs to be done in a way that supports enhanced competition as well as universal access obligations. Government has proposed the introduction of a Wholesale Open Access Network (WOAN) but competition might more easily be stimulated through stronger wholesale regulation and obligations tied to spectrum allocation and/or spectrum set-asides to encourage access by operators with less access to capital.

Deepen ICT skills base. South Africa ranks poorly in its ICT skills base, from the school to the professional level. There is deep nascent capacity that has not yet translated into a national capability. Some of the priorities include:

- Connecting all schools by 2023, with supportive digital services in the school and in the cloud, and free WiFi to low-income households nearby.
- Centres of excellence supported to innovate in digital teaching and learning methodology from school to PSET. ICT training need to be core in teacher training curriculum and in ongoing professional development.
- Stronger partnerships between vocational training and industry to ensure relevance of curriculum and pathway into digital apprenticeships and workplace learning.
- Identify and address the causes of poor throughput of high-quality ICT graduates
- Expand opportunities to unemployed youth to gain digital literacy and related vocational skills

Enable e-commerce, digital finance and digital entrepreneurship. E-commerce could be better enabled with reform to digital finance regulatory systems. This would allow wider access to the National Payment Systems by non-banks. Strengthen the support to digital entrepreneurs, in relation to knowledge hubs, angel investing, incentives, and create a more enabling environment for the commercialisation of IP. This is particularly needed to encourage entry of women and black-led digital business.

Strengthen partnerships. Globally, governments and regulators struggle to keep up with fast-moving digital trends and this is also so in South Africa. Meaningful standing partnerships and knowledge forums that engage government, business and other stakeholders in a focused practical manner, will be essential to ensuring relevance over time. There are a number of formations that could service this need such as the Presidential Commission on 4IR (PC4IR) and/or the Public-Private Growth Initiative (PPGI)

4 Contributors to poor economic performance - *continued*

Table 15: SA Connect Targets and Actuals

NDP target	Baseline	2016		2020		2030
	(2011)	Actual	Target	Actual	Target	Target
% of population with internet access	33.7%	54% [2] unspecified	50% at 5Mbps	65%5	90% at 5Mbps 50% at 100 Mbps	100% at 10Mbps, 80% at 100Mbps
Government facilities (% connected)						
Schools	25% [1]	28% [3]	50 % at 10 Mbps	30% [4]	100 % at 10 Mbps 80 % at 100 Mbps	100% at 1Gbps
Health	13% [1]		50 % at 10Mbps	n/a	100 % at 10Mbps 80 % at 100Mbps	100% at 1Gbps
Government offices			50 % at 5Mbps	n/a	100 % at 10Mbps	100% at 1Gbps

Sources and Notes: In some cases, the NDP did not identify targets for 2015 or 2020 and the targets refer to those set by SA Connect in 2013.

1. This baseline refers to 2013.

2. Figure is for 2017. Speed unspecified. It means 54% of the population has access to the internet. Source is ITU (2017).

3. Figure is for 2018 and refers to availability of internet without reference to speed. Source is DBE (2018).

4. Figure is for 2019, and simply refers to availability of internet in school without reference to speed. Source is ICASA (2020).

5. Figure is for 2018, sourced from Statistics South Africa GHS 2018. It refers to percentage of households with access to the internet at home, or for which at least one member has access to, or used the internet. Speed or quality not indicated.

4 Contributors to poor economic performance - *continued*

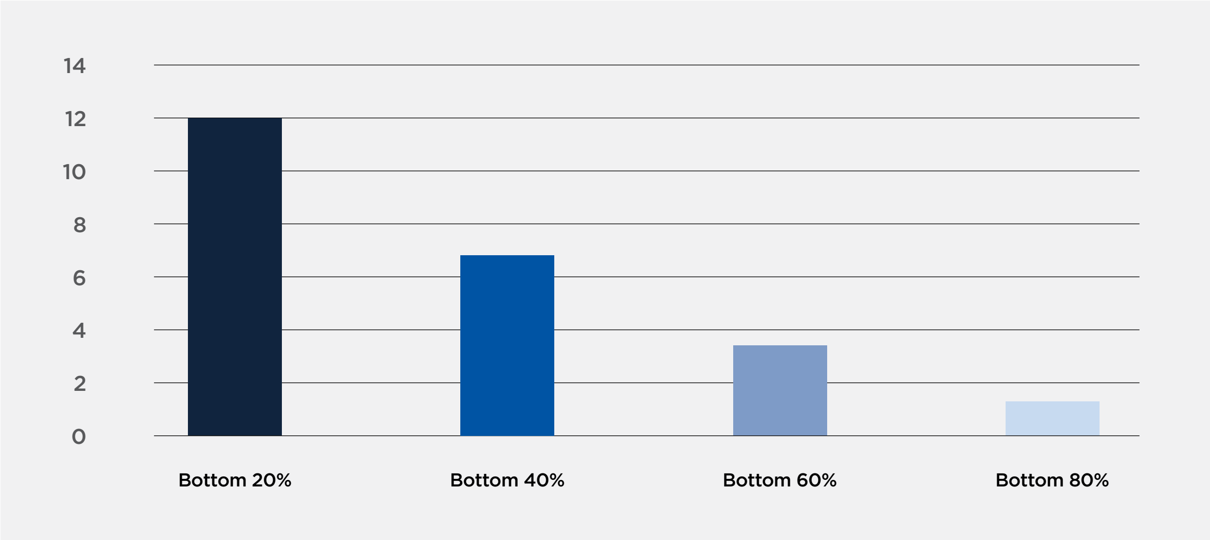
Table 16: Households' access to the internet by place of access, urban/rural status and province, 2018

Place where Internet is accessed	Rural/ Urban status	Province (percent)									
		WC	EC	NC	FS	KZN	NW	GP	MP	LP	RSA
At home	Metro	30,5	6,3	-	13,4	8,9	-	17,5	-	-	17,3
	Urban	17,0	5,7	5,9	5,8	6,9	5,1	11,5	6,1	5,4	8,0
	Rural	15,5	1,4	1,1	2,9	1,2	0,8	6,4	3,1	0,6	1,7
	Total	25,8	4,1	4,6	7,6	5,6	3,0	16,7	4,4	1,7	10,4
At work	Metro	22,7	23,5	-	12,4	23,3	-	27,2	-	-	25,0
	Urban	19,7	12,9	14,5	12,3	19,7	10,7	17,5	7,9	18,8	14,9
	Rural	9,5	1,8	3,3	2,9	3,1	4,6	9,7	5,5	1,8	3,3
	Total	21,1	11,8	11,4	11,1	15,1	7,6	25,8	6,5	5,7	16,2
Using mobile devices	Metro	67,8	71,6	-	69,5	60,0	-	68,6	-	-	67,4
	Urban	54,5	57,9	55,2	63,7	61,2	68,1	68,6	76,1	58,1	63,7
	Rural	26,8	36,9	50,2	50,8	45,2	46,7	34,6	63,1	38,9	45,0
	Total	61,7	53,7	53,9	63,6	54,9	57,2	68,3	68,8	43,3	60,1
At Internet Cafes or educational facilities	Metro	15,5	17,6	-	4,3	10,4	-	17,8	-	-	15,8
	Urban	13,8	9,8	2,9	10,9	9,2	5,8	5,7	2,5	5,6	7,6
	Rural	0,0	1,5	1,9	5,9	4,0	7,7	0,0	4,6	1,9	3,5
	Total	14,1	9,0	2,6	8,3	7,8	6,7	16,1	3,7	2,7	10,1

Source: Statistics South Africa GHS 2018

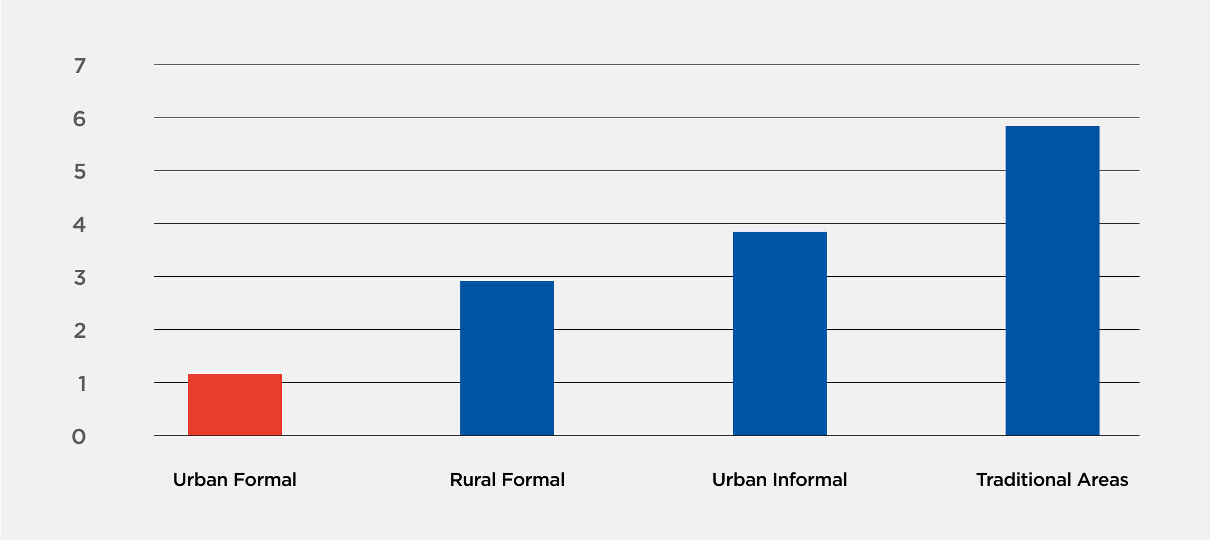
4 Contributors to poor economic performance - *continued*

Figure 19: Price of 1GB of data as a percentage of income per capita by income group



Source: World Bank (2019)

Figure 20: Price of 1 GB data as a percentage of income per capita by settlement type



Source: World Bank (2019)

4 Contributors to poor economic performance - *continued*

4.5 Dynamism in employment-generating industries

4.5.1 INDUSTRIAL DYNAMISM

The NDP has a vision for an industrial base that is diversifying, increasingly dynamic, inclusive and encourages more labour absorbing activities. The NDP states that by 2030, South Africa should have a higher global share of dynamic products, and greater depth and breadth of domestic linkages.

The South African economy has classic features of a minerals resource-based exporter, with a large domestic services sector. Low growth, high domestic costs, high industrial concentration, weak competition, and weak investment in human resources typically results in limited success in promoting employment and economic dynamism.

The NDP identifies a number of preconditions for progress, including: strengthening commercial transport, telecommunications, energy, and water provision; supporting the expansion of dynamic small- and medium-sized firms; achieving improved education and health outcomes; improving the alignment of human settlements and public transport systems to support the emerging forms of employment; strengthening the capabilities of the workforce through education and skills development; playing a more pivotal role in regional development and integrating supply chains across the region; and strengthening public-service capabilities and the governance of state-owned enterprises.

Performance in meeting NDP objectives for industrial dynamism over the past decade has been poor, requiring significant course correction.

Between 2008 and 2015, manufacturing output grew by an average of 0.5% per annum, as compared to Malaysia (2.7%), Turkey (5.6%), Egypt (3.3%), Thailand (2.0%) and Mexico (2.0%) or Brazil, whose manufacturing sector contracted by -1% per annum (see Figure 21).

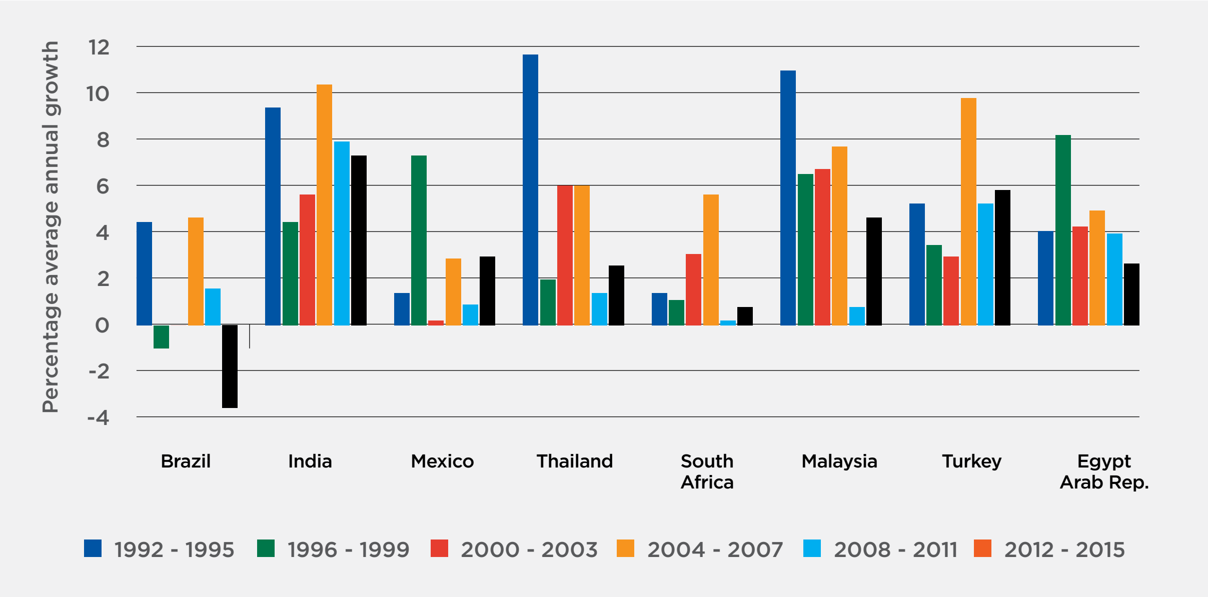
Figure 22 compares trends in value-added production and employment by major sectors over the period from 2010 to 2019. The most important markers of stagnation that may impact on progress going forward include:

- There are no major sectors driving growth. No sector grew faster than 3% annually over the period.
- The sectors that should provide dynamism have contracted.
- Services have dominated employment and output as expected in the NDP, yet they have also been anaemic. There has been little evidence of productivity improvement. Therefore services have neither played a leading role, nor have they offered sufficient support to traded activities. Poor productivity growth in key services has meant that traded activities do not get the support they need.

In this Report, we have focused attention on the foundations for advancement that crosscut, rather than on specific sectors. Industrial interventions will only have meaningful impact if physical and human capabilities are ready and engaged.

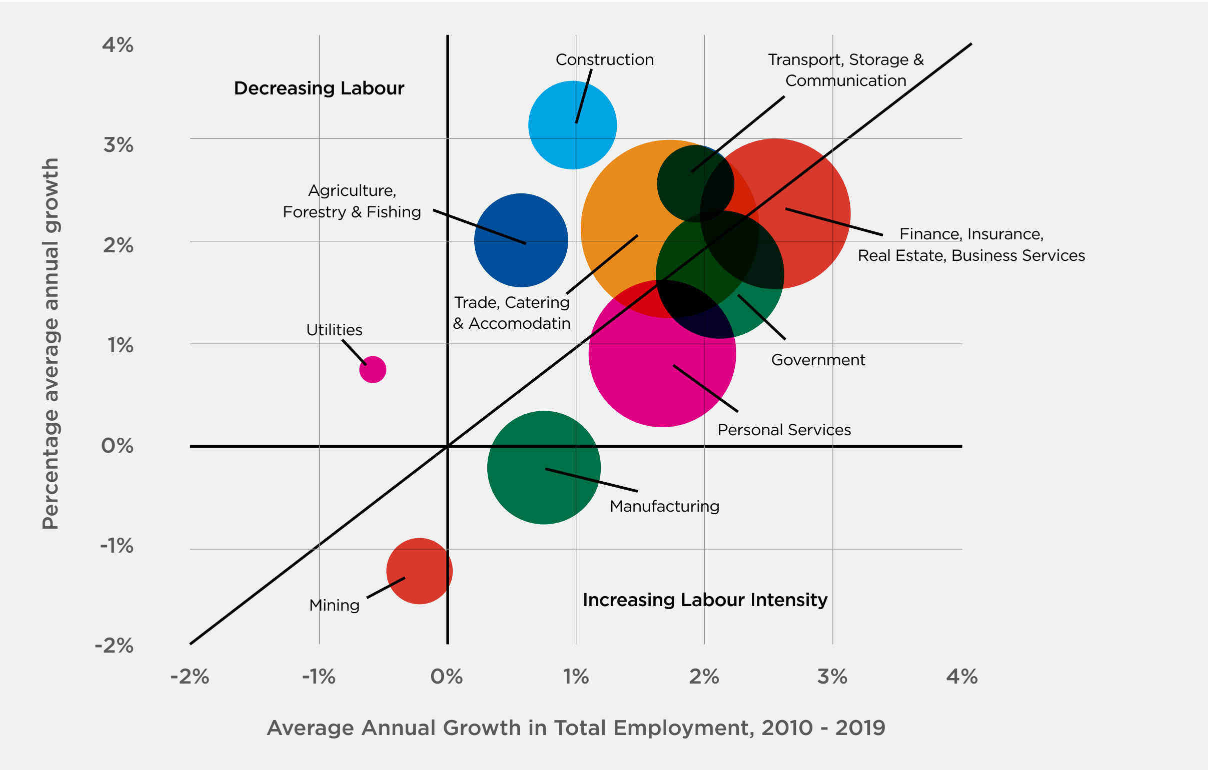
4 Contributors to poor economic performance - *continued*

Figure 21: Annual average manufacturing growth rates, selected countries, 1992-2017



Source: Calculated from World Bank, 2016
Note: See discussion in Black, Craig and Dunne 2016.

Figure 22: Comparative growth in production and employment by sector, 2010 to 2019



Source of data: Quantec
Note: Bubble size reflects total employment in sector in 2019

4 Contributors to poor economic performance - *continued*

4.5.2 GLOBAL MARKET PRESENCE

South Africa is a small, open, minerals-based economy, with trade accounting for around 60% of GDP. This ratio is higher than many other comparator countries. Even so, South Africa has not managed to expand its global market share whether in traditional or non-traditional products, has not expanded the complement of high value activities in its trade basket, nor stimulated the needed dynamism amongst existing and emerging exporters.

A growing share of global markets, especially in products with rising value and demand, is essential to growth and employment. This share of global markets refers to domestic and foreign demand for South African goods and services.

The NDP targets an average annual growth in total export volumes of 6% a year to 2030, with growth in non-traditional export volumes of 10% a year. This should result in the share of world exports almost doubling to close to 1% by 2030.

The NDP proposes a number of interventions aimed at addressing constraints and facilitating export growth, including creating adequate warehousing and logistic facilities, instituting efficient procedures at customs and border posts, standardising government policies and regulations to avoid duplicated processes and delays and establishing a strong economic diplomatic presence in countries and regions with the greatest market growth potential.

While these are important matters, much greater efforts and focus are required to effect necessary structural economic transformation in globally competitive, higher value-added products. The export successes registered in autos, textiles and clothing and some agro-processed products demonstrate the effectiveness of evidence-based government support, in close collaboration with business and labour, for industrial development and to promote higher value-added exports.
Trade was meant to be diversified towards emerging economies by improving market access for South African exports, working with regional trading partners to lower tariff and non-tariff barriers, and improving transport and logistics networks in the region.

Instead, South Africa's export profile has diminished.

Between 2011 and 2019, total export volumes increased at a rate of 1.4% a year compared to the 6% target. Over the same period, world export volumes rose by 3.3% a year, with the result that our share of world exports dropped from 0.56% to 0.42% (See Figure 23). Goods exports rose by 1.5% a year and services export volumes increased by 0.6%. Minerals-related exports' share of the value of total goods exports dropped from 48% to 42% between 2011 and 2015 but this was almost exclusively due to the fall in commodity prices rather than an increase in non-minerals exports. Between 2010 and 2019, global commodity prices dropped by 19%.

The loss in world market share was consistent across all the major merchandise product categories, apart from transport equipment. In services trade, global market share fell in all categories except personal and recreational services.

Despite these trends, there was some improvement in South Africa's terms of trade. Between 2010 and 2019 the price received for exports rose by 7% more than the price of imports.

4 Contributors to poor economic performance - *continued*

Figure 24 shows that South Africa has underperformed relative to peer countries in expanding non-minerals merchandise and services exports. Figure 24 shows that South Africa's share of non-commodity global exports fell between 1992 and 2002 and has remained below 0.5% since then. About half of South Africa's exports are in minerals and metals, which account for 90% of South Africa's export growth between 2007 and 2012. This poor performance is also seen in South Africa's traditional strengths: our share of global mineral, metals and fuels exports fell by almost 50% in the 1990s, and recovered only slightly by 2012, so that, by then, South Africa's share was 65% of its 1992 level.

Table 17: NDP export targets and outcomes

NDP target	Baseline	2015		2020		2025	2030
	(2011)	Target	Actual	Target	Actual*	Target	Target
Exports growth (constant rand)	4.0% (2010–12)	5%	2.3% (2014–16)	6%	0.1% (2018-19)	6%	6%
Non-traditional exports growth (non-mining based)	7.6% (2010–13)	8.8%	4.0% (2014–16)	10%	-0.8%	10%	10%
Mining/metals exports	5.9%		-0.7%		1.9%		

**Reflects 2019 actuals*
Sources: Statistics South Africa, 2020; South African Reserve Bank, 2020.
Notes: NDP targets and outcomes are presented. In most cases, the NDP did not identify targets for 2015 or 2020. A reasonable interim estimate is offered that would have set the economy and quality of living on the track to 2030 objectives.

What explains this performance?

The declining share in world markets speaks to a general deterioration in the relative competitiveness of South African products, due to a range of factors, many of which are discussed elsewhere in this document.

Average import penetration remained relatively stable at around 30% of gross domestic expenditure between 2011 and 2019 but the imported share of intermediate inputs into production processes across all the major sectors has risen since 2010. For example, construction imports constituted 19% of intermediate inputs in 2010 and 26% in 2019. This suggests a weakening of many value chains.

In respect of export-specific issues, the profile of exporters has remained highly concentrated, with 80% of total exports accounted for by the top 1% of exporters, compared to an international average of 55% (World Bank, 2014). There has been limited entry of new exporters since 2001 despite various dtic initiatives and even the big exporters are becoming less dynamic.

4 Contributors to poor economic performance - *continued*

There is great diversity of exporters across the remaining 20%, with 20 000 exporters selling 5 000 products, covering 90% of goods classified for trade. Non-mineral exports are sophisticated relative to peer countries, especially in industrial machinery and transport equipment segments, competing on quality and not price (World Bank 2014). This demonstrates a nascent capability that is not yet being realised. These companies tend to export only a small percentage of output, and toggle between export and domestic markets depending on exchange rates and market demand. Some part of this weak performance can be explained by trade conditions following the global financial crisis of 2008/9, with weakening growth, austerity measures in some trading partners that have decoupled trade from GDP. Competition has intensified while restrictive trade practices have proliferated.

Much has been done to strengthen South Africa's position in the world, particularly in relation to Brazil, Russia, India, and China and the Africa region. However, domestic weaknesses are a central explanation for poor performance. Some elements include:

- As a start, successful exporting countries offer deeper support to their lead exporting agricultural, industrial and services. The supporting logistics and services need to be extremely competitive, especially when there is a built-in distance-from-market disadvantage. The domestic cost to export merchandise is higher and rising relative to a selection of middle-income economies. As an example, the domestic cost of exporting is about 3.6 times higher in South Africa than in Malaysia, and 20% more than for Mexico. The cost of exporting rose by 64% between 2006 and 2013 (World Bank, 2017c).
- Beneficial trade arrangements in goods and in services is a critical element in success. South Africa may have opened up too rapidly in the 1990s and not been sufficiently strategic in its use of tariff and non-tariff barriers. While South Africa made great headway in opening up the economy in the 1990s and forging investment and visa arrangements with global partners, insufficient progress has been made in this regard over the past decade. In particular, slow progress in easing visas to support much needed job creation through tourism air arrivals. South Africa has also been slow to engage in services trade negotiations. There is particularly poor readiness in relation to e-commerce, which thus far has been handled with a defensive approach and yet without sufficient protection for domestic industry and consumers.
- The NDP advocates that economic diplomacy efforts be expanded and focused on key growing markets, especially in Africa and Asia, and government seems to have taken this to heart. In the Integrated National Export Strategy, the dtic identifies 50 countries as priority target markets for export expansion. Thirteen of these are in sub-Saharan Africa. This may be diffusing our efforts too much – especially if the officials driving these processes do not have the necessary capabilities and resources to undertake export marketing effectively. While South Africa has about an average spending per capita on export promotion agency activity, it appears to deliver well below the average in stimulating exports (Lederman et al., 2006). Part of the reason for this may be that dtic's export-performance monitoring outputs are poorly aligned with the required outcomes.
- Limited regional integration and growth play a role in this long-term trajectory. South Africa has formally engaged with the region since the political transition in the mid-1990s, and these relationships are still evolving. South Africa's per capita income rose by about 65% over the past half a century, and that of Sub-Saharan Africa rose by 51%. One would expect faster growth in lower-income economies. However, while South Africa has been championing greater regional integration, our share of exports to other African countries has declined.

4 Contributors to poor economic performance - *continued*

The NDP vision is that South Africa must take a more proactive stance to stimulate regional development and growth, being the country with the strongest industrial and financial capability. Instead, South Africa may well be dragging down regional growth potential, and inadvertently its own potential.

- China has become South Africa's biggest single trade partner. China buys about 17% of South African exports. However, 60% is chrome ore and coal. Iron ore and steel are contested markets and coal will be in long term decline. South African's weak competitiveness and poor regional market development has also enabled China to disintermediate the country's manufactured exports to the rest of Africa. In a period of growing global protection, China has stated a continued commitment to investment in Africa and market opening. Far greater attention will be needed to diversifying South African exports to China, to building partnerships in the region, and to investment in South Africa for export into Chinese markets.

Tourism deserves special mention due to its potential job creating impact. Tourism accounts for about 716 000 direct jobs in South Africa, and about 3% of GDP or R128 billion in 2016 and almost 10% of South Africa's exports (WTTC, 2017). About 1.5 million jobs are supported overall.

South Africa is seen as competitive but underachieving in realising the potential of tourism. The country ranks 35th out of 185 country destinations but only 99th in relation to contribution to the economy, and 96th in its long-term growth forecast (2017-2027) (WTTC, 2017). Direct employment of 716,000 in 2016 might be compared to countries like Mexico (4m), Brazil (2.5m), Thailand (2.3m), Philippines (2.2m). The WTTC forecasts growth to about 1.6-million jobs by 2027, still far underperforming relative to competitor countries.

WORLD RANKING (OUT OF 185 COUNTRIES)

Relative importance ot Travel & Tourism's total contribution to GDP

35	99	146	96
Absolute Size in 2016	**Relative Size** Contribution to GDP in 2016	**Growth** 2017 forecast	**Long-Term Growth** Forecast 2017 - 2027

Source: WTTC 2017

About 1 job is created for every 12 to 15 tourists that visit South Africa (see Lowitt, 2007). We can create more jobs – by expanding the numbers of tourists, lengthening their stay, raising the value add (e.g. the higher the hotel star rating, the more direct employees per guest), and by encouraging buying of local products.

Since tourism should be a significant job creator and opportunity for business entry, the lack of transformation also deserves mention. A recent survey of accommodation, travel and hospitality firms by the South African Department of Tourism (DoT, 2018) shows that almost all micro-enterprise is non-black or foreign-owned, that medium-sized firms fare a bit better and that large enterprises, especially in accommodation, are not transformed at all.

4 Contributors to poor economic performance - *continued*

Covid-19 appears to put an end to this vision but given that it is such an important job creator, especially for youth and women, we must find ways of ensuring that tourism and related activities are able to open as soon as safely possible. As with all other labour-intensive activities that require face-to-face interaction, far more attention is required to strengthen Covid-19 risk-adjusted strategies that enable the safe human movement and interaction. These include, inter alia, Covid-19 health passports, ubiquitous Covid-19 and antibody testing with rapid results, deeper support to business to ensure compliance with Covid-19 health protocols, the availability of health sanctuaries, the use of masks and disinfection, and physical distancing.

Internet-enabled traded services, sometimes called global business services, also deserve special mention. Global business services include call centre work, coding, other ICT services, finance, accounting and legal support and increasingly includes new services such as tutoring and long-distance care. Current evidence suggests that the global trade in digitised services far exceeds growth in other traded products (SADA, 2020).

The available data suggest that South Africa enjoys some comparative advantage in the global business process outsourcing (BPO) market (Altman 2012). South Africa was recently placed second, behind India, in the 2020 Top 5 Global BPO Offshore Locations, ahead of the Philippines (3rd), Malaysia (4th), and Poland (5th) (BPeSA, 2020).

The NDP proposed that South Africa should seek to become a global leader in IT-enabled services aiming to stimulate the creation of 700 000 new jobs.

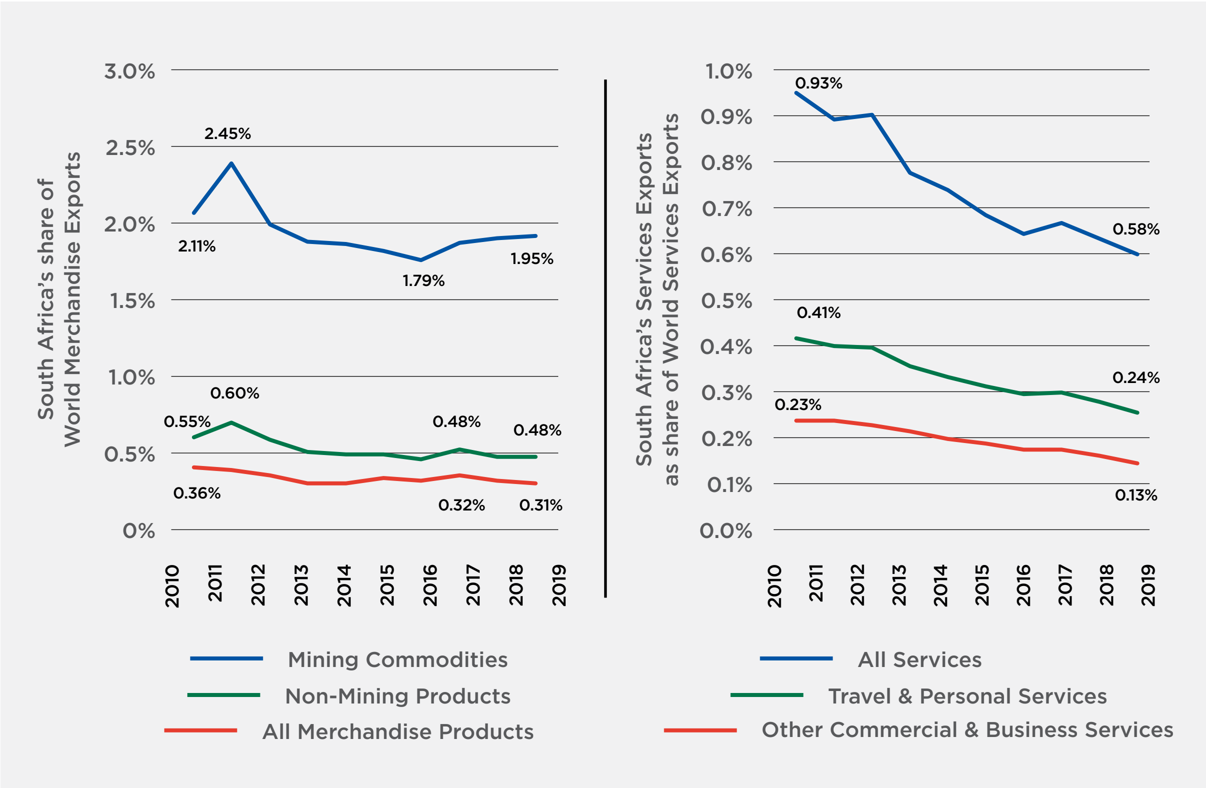
South Africa's global business services sector enjoyed average growth of 22% for the three years leading up to 2018 and then accelerated further to 34% in 2019, creating over 26 253 new jobs in the export segment of the sector, which employed approximately 65 000 people prior to the Covid-19 lockdown. Close to 90% of the new jobs created were for youth (with a target of 20% being for excluded youth), 65% were for females, and 96% were for people of colour.

The combined export and domestic segments offered 260 000 people employment in good quality jobs by March 2020 (BPeSA, 2020). The industry has identified an ambitious long-term goal of creating an additional 400 000 net new jobs by the end of 2030 based on the growth potential of global digital and ITO work with BPO work. Importantly, global business service jobs can provide an important entry point into the labour market, especially for school-leavers without tertiary qualifications.

In plans such as the Integrated National Export Strategy (INES), the dti (now dtic) explicitly adopted the export growth targets contained in the NDP. While departmental reporting does not measure progress against these targets, it prioritises trade and investment integration across the African continent . A soon-to-be-released revised INES will focus on four pillars, which include: 1) the enabling environment and global competitiveness; 2) increasing the demand for South African goods and services through market diversification; 3) broadening the exporter base through the National Exporter Development Programme (NEDP); and 4) strengthening strategic export-promotion mechanisms through enhancing South Africa's value proposition.

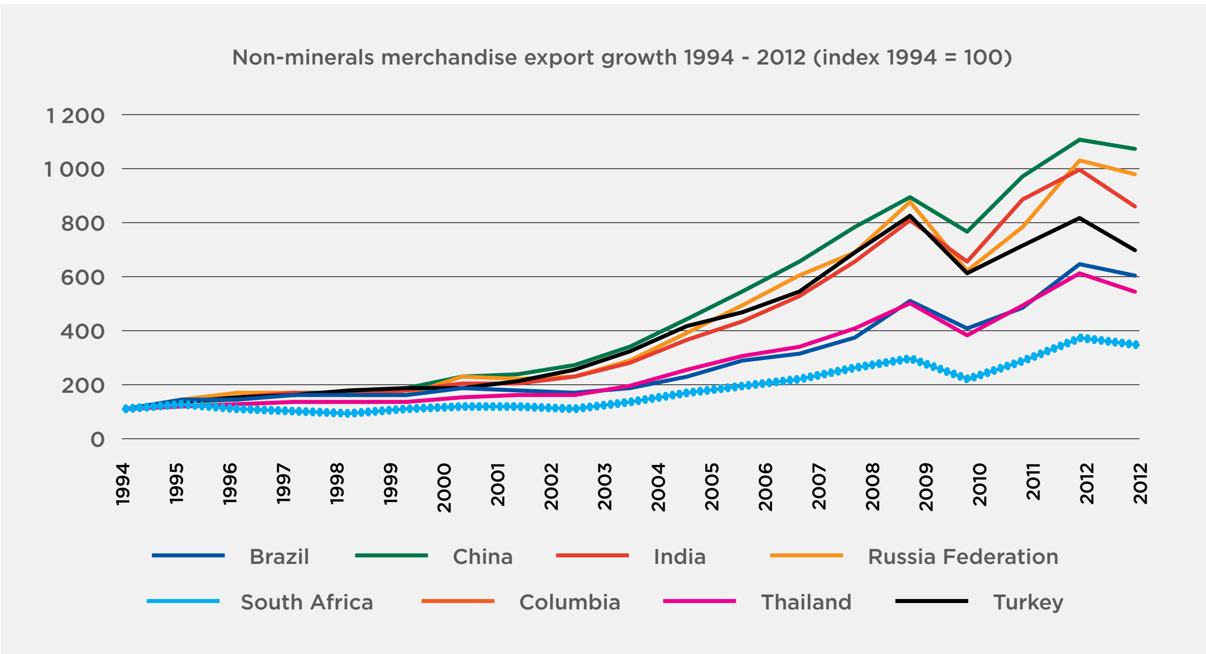
4 Contributors to poor economic performance - *continued*

Figure 23: South Africa's share of world merchandise and services exports



Source: TradeMap (using UN Comtrade data), 2020

Figure 24: Non-mineral merchandise and services exports – South Africa compared to peers



Source: World Bank, 2014

4 Contributors to poor economic performance - *continued*

4.5.3 COMPETITION AND ACCESS TO MARKET OPPORTUNITY

The NDP targets for employment and growth rely substantially on greater dynamism and competition. This is particularly important for South Africa, with its high levels of market concentration, significant collusive behaviour, and legacy barriers to market access for new players, particularly for the historically disadvantaged.

The following four conditions must be true for South Africa to achieve the goals of the NDP, not only because they reflect our values but also because they are a necessary foundation for sustained growth and employment creation:

1. Small firms will have to play an important role in future employment creation.
2. Equitable access to business opportunity will have to play an important role in employment creation and in building a dynamic economy.
3. Small, medium and large dynamic firms will have to play an important role in stimulating new products, innovation and raising productivity.
4. Competition will have to contribute to reducing the cost of inputs to business and the cost of basic goods critical to the development path.

There are two linked issues that would tell us whether these conditions are being met. The first is overall levels of concentration and competition. The second is whether there is evidence of expanding employment in small business.

a. COMPETITION, CONCENTRATION AND COLLUSION

Persistently high levels of concentration and barriers to entry, and the growth of rivals contribute to slow growth, employment creation, transformation, innovation, and economic competitiveness (Makhaya and Roberts, 2014;[59] Mondliwa and Roberts, 2018; and World Bank, 2017b). This is partly explained by an historically inward-looking economy, dominated by industries that typically have scale economies such as mining, minerals, chemicals, and energy, and more recently industries that benefit from incumbent network advantages in telecommunications, finance or healthcare. Regulation and competition-promoting industrial policy have an important role to play in this context. Private players that abuse their market dominance to price at import parity drive up the cost structure for small players who rely on those inputs and make them, in turn, uncompetitive.

There has been significant action to attend to anti-competitive behaviour or abuse of dominance in South Africa. Competition law and related institutions were put in place from 1998. There has been substantial progress in attending to collusive behaviour, with less attention on policies that induce more competitive industries. Yet, evidence from recent competition cases in South Africa, as well as in other jurisdictions such as the European Union, shows that cartels persist in this context. South Africa has a business environment that is conducive to cartels, dominated by industries with characteristics such as high concentration, companies that were historically tightly regulated and protected oligopolies or monopolies, product homogeneity, products where a change in price does not affect demand and where there is a lack of buyer power. Trade associations are an important service yet have also been an unfortunate location for collusive behaviour (World Bank, 2016).

[59] Makhaya and Roberts (2014) lament on the lack of data available from Statistics South Africa in recent years on market structure and industrial trends, which constrained our ability to assess progress.

4 Contributors to poor economic performance - *continued*

Cartels and highly concentrated markets can contain market access for new players, which is an important public policy objective in a country with our legacy of exclusion. They further have a disproportionate impact on the poor, relative to the rich, as they are mostly found in certain markets, such as basic foodstuffs, cement, fertiliser, steel, energy, or telecommunications[60]. Furthermore, industries that depend on the products of these concentrated upstream industries are made less dynamic, partly explaining slow industrial diversification. Mondliwa and Roberts (2018) give examples of fertiliser and agriculture, cement and construction, and broadband and digital firms.

A further complicating factor is that some of the incumbents have advantages that have cemented their positions and created barriers to competition. This includes relatively easy access to capital and dominance of value chains. This results in a very tightly controlled economy in which the incumbents hold sway and black hopefuls have a mountain to climb. While superior and inferior players are a natural in any economy, the barriers to entry and effective competition in the South African economy are extreme and can negate efforts to promote transformation.

The biggest impact on prices in previously collusive markets has taken place when new entrants are enabled. The goal is not necessarily to prioritise firms by size but rather to ensure that markets are competitive.

b. SMALL-BUSINESS DYNAMISM

Growing, dynamic small firms are meant to be a significant contributor to the attainment of NDP goals. However, in South Africa, less than 20% of all working people are employers or are self-employed. This can be compared to an average of 40% in upper middle-income countries (excluding China), many of whom are active in agriculture and retail. Usually, these businesses rely on long-standing family assets, market connections and customer networks. However, the legacy of exclusion of the black population from most business activities and skilled employment has resulted in limited inter-generational accumulation of assets and business networks. As a result, most black African families do not have the critical foundations for starting their own businesses. This is one of the reasons why South Africa's unemployment rates remain persistently high.

Although ownership of formal small and micro-enterprises by black Africans has expanded dramatically, rising from 38% in 2002 to 76% in 2017, women own only 27% of formal small businesses but 40% of all informal businesses (Trade & Industrial Policy Strategies, 2019). The formally self-employed are mainly educated artisans or professionals and have above-average remuneration. The informally self-employed tend to have low education and low earnings. The likelihood of owning a firm rises with education. One-fifth of people with a degree own a small business, compared to 10% of those with a post-secondary diploma and less than one in 20 of those with a matric qualification or lower. Most people in South Africa's informal economy are there because their low skill levels exclude them from more formal activity, or because formal economic activity cannot absorb more employment. In such cases, their informal activity supports

[60] Food prices are particularly concerning, given their prominence in poor household expenditure. As noted, real food prices have risen by about 35% since 1999. The food value chain is highly concentrated in areas like storage, processing and retail. The number of commercial farms halved from 1994, without a decline in production (NPC 2017).

4 Contributors to poor economic performance - *continued*

inclusive growth because it increases the level of economic activity above what it otherwise would have been. If high costs of formalisation (taxes, administrative, and legislative compliance etc.) cause people who would otherwise operate formally to choose to operate informally, then informal economic activity will have a negative impact on inclusive growth[61].

There has been limited success in expanding the overall presence and contribution of small firms, as evidenced by the dramatically falling share of employment in small firms over the past decade. As noted in section 3.1, employment in formal small businesses declined after the global economic crisis, with limited recovery. The share of total employment fell from 64% in 2008 to 55% in 2015. The Department of Small Business Development notes that starting an SMME has become a natural alternative for people struggling to find employment. In the context of a stagnating and contracting economy, this means that available markets are being shared amongst an increased number of enterprises with resulting implications for declining average turnovers, profitability and incomes.

Without appropriate interventions, this legacy will continue. Supportive supply-side policies are needed, as is access to finance, markets, and opportunity. The NPC's research in townships, rural areas and informal settlements found that access to finance was an especially critical barrier for entrepreneurs interviewed. About 90% of respondents said government support for SMMEs was poor or very poor (NPC, 2017a).

The state has set up a range of support policies, including arrangements around competition and procurement to promote market access but this has not yet made a significant difference to the overall growth and dynamism of small businesses in South Africa.

A more focused and deliberate strategy is needed to:

- Stimulate entrepreneurship, especially amongst historically disadvantaged communities, and facilitate the rapid growth and development of small business in these communities.
- Strengthen support mechanisms, ranging from small business finance to business development services. Monitoring and evaluation of support to small business needs more regular review.
- Regularly assess linkages between skills development processes and small business growth and development – especially in priority sectors identified in the Industrial Policy Action Plan (IPAP). This should assist in opening markets to small businesses and can contribute to the revival of the manufacturing sector.
- Ensure that the views and concerns of small businesses are more effectively articulated in decision- and policy-making structures. Policy-making and regulatory design needs to be more responsive to the needs of small business.

Table 18: Employment in small firms (2015)

	Informal	Formal		
Firm size (number of employees)		**Self-employed**	**Very small (5–9)**	**Small (20–49)**
Percentage of all wage employment	9%	2%	22%	17%

Source: Trade & Industrial Policies Strategies, 2017.

[61] The NDP does not prioritise informality. The South African regulatory design is aimed at encouraging registration. Large informal or shadow sectors in middle- to higher-income countries often indicate over-onerous regulatory and tax regimes from which firms, that would otherwise be registered, hide. Large informal sectors are normally more prominent in low-income economies.

4 Contributors to poor economic performance - *continued*

Priority interventions for industrial dynamism

A diversifying economy with a growing share of both global and domestic markets is essential to supporting higher rates of growth and employment. However, the sectors that are supposed to provide impetus to growth and dynamism (largely agriculture, mining, manufacturing, and high-value services) have not done so and South Africa's share of global markets has declined. At present, the most important interventions are cross-cutting: strengthening education and skills, infrastructure, the investment environment, the quality of public services, and attending to the apartheid space economy. These cross-cutting priorities are discussed in the rest of this Report.

There are several priority interventions required to inject greater dynamism into the economy that are specific to industrial policy.

- The destruction of capacity caused by the Covid-19 pandemic must be limited. Widespread financial support needs to be channelled to affected businesses and workers to limit the extent of permanent damage and will still be needed even as the economy re-opens. A commitment to Covid-19 health protocols at work, in transport and in communities will help sustain economic opening.
- Dynamic activities that create employment and have significant linkages to other parts of the economy need to be prioritised. Examples include: social housing construction, maintenance and refurbishment of public buildings, the construction of public transport systems, IPP energy and related investments such as battery storage, agriculture and related industries. A more ambitious tourism drive is also required.
- The capacity to drive greater dynamism through exports needs to be developed, especially in relation to non-traditional goods and services. Partnerships between government and exporters are needed, including those that could stimulate export expansion amongst a wider business community. Commercial diplomatic support and intelligence in top priority markets is required.

This particularly refers to the USA, the UK and EU, key markets in Africa, China and India. The African Continental Free Trade Area (AfCTA) is designed to facilitate an increase in intra-regional trade and must be driven rapidly even in the context of the Covid-19 pandemic. China is a growing priority and South Africa must ramp up its capacity to engage strategically.

- The NDP envisaged that small- and medium-sized businesses would be important sources of dynamism and employment, as well as opportunity for new entrants. Yet their share of output, employment and exports has diminished. Attention is required to:
  - strengthen regulation and industrial policy to deepen competition and attend to anti-competitive behaviour.
  - Stimulate entrepreneurship especially in historically disadvantaged communities.
  - Strengthen support mechanisms for SMEs, including business and skills development.
  - Ensure the regulatory regime is conducive to small business needs and abilities.
  - Meaningful recognition of the importance of private-public partnerships is essential to success. The Master Plan processes and efforts by PPGI could be bolstered in this regard. However, it must be recognized that significant effort will be needed to develop these relationships and build trust.

4 Contributors to poor economic performance - *continued*

4.6 Public employment

Public employment includes both direct public employment (civil servants) as well as public employment programmes.

Central to the NDP is the need for a capable and developmental state. This requires a professional, appropriately-sized civil service to meet the needs of South Africa's growing population.

While there are concerns about South Africa's rising civil service wage bill, this is not reflected in commensurate public sector employment: between 2006/07 and 2018/19 personnel numbers grew by 170 000 (less than 15%) to 1.3 million. A quarter of that increase in personnel was attributed to the health care sector. Justice and education saw the second and third highest increases in employment. However, public sector employment peaked in 2012/13 and has since declined by some 1.4%.

There continue to be critical shortages of professionals, specialist and front-line civil servants. South Africa's population grew faster than the increase in the public service over the past fifteen years, resulting in a declining ratio of police, teachers and corrections officers to the population, adding further stress to service delivery. Average remuneration in the public service grew by 66% between 2006/07 and 2018/19, after adjusting for inflation. This occurred over a period of poor economic growth and diminishing fiscal resources. There is a real trade-off between employing to enhance service delivery and raising salaries of existing personnel. There is a further trade-off between personnel spending and other critical expenditures.

The key challenge in respect of public employment (civil servants) is balancing the need for expanded front-line staff to improve service delivery while reducing the overall public service wage bill. It seems improbable that this can be easily fixed without a review and restructuring of the civil service that directs more resources into service delivery programmes as opposed to policy and administrative functions.

Public Employment Programmes (PEPs) play an important role in the NDP especially in a context of high unemployment. The Covid-19 pandemic has intensified this demand. The NDP proposed a target of some two million public employment opportunities per year by 2020.

As of 2019, just under a million work opportunities were being created annually across the infrastructure, environment, social and non-state sectors. However, public employment programmes – for several reasons – have struggled to scale. In the context of the economic crisis (exacerbated by Covid-19) there is an urgent need to expand PEP opportunities, at a time when fiscal resources to fund such programmes are increasingly constrained. The key question therefore is how to scale PEPs in a way that does not exacerbate the fiscal crisis and that also meaningfully engages unemployed people to deliver goods and services that are of value to society.

Public Employment Programmes are utilised globally by governments as an important instrument in the face of persistent the long-term unemployment. They are also sometimes deployed as a 'countercyclical' measure to support consumption.

4 Contributors to poor economic performance - *continued*

While the initial design of the PEPs focused on labour intensive construction and public works activities, these have evolved. Increasingly, innovation is evident in the variety of activities that are being undertaken as well as different delivery models. The original core of the PEPs is the infrastructure Expanded Public Works Programmes (EPWP), which has reached 282 094 participants. There are concerns relating to the utilisation of the EPWP as a budgetary source for the funding of core municipal work as that may be undermining its supplementary nature and displacing formal public employment. Additionally, the grant has been subject to significant capture by local interests in many municipalities.

In contrast, the environmental, social and non-state EPWP programmes have fared better – in the main because of more robust institutional and monitoring arrangements, as well as the participation of non-state actors.

Table 19: Public Employment programmes targets vs performance (2018/19)

Sector	Annual targeted work opportunities	Work opportunities reported	% of targeted work opportunities achieved	Individuals within Sector	% individuals within Sector
Infrastructure	589 473	296 014	50%	282 094	95%
Environment	232 923	205 329	88%	186 760	91%
Social	214 444	193 737	90%	183 849	95%
Non-State	419 000	302 206	71%	299 550	99%
Total	1 455 840	997 286	69%	952 253	95%
Overall distinct individuals					931 877
Overall distinct individuals as % of Work opportunities					93%

Source: DPWI (2020).

The Community Work Programme (CWP) is structured on the participation of NPOs as implementing agents and explicitly targets community empowerment. Evaluation evidence suggests that the CWP has been successful in empowering communities to deliver socially useful activities. None of these programmes have, however, managed to scale significantly. The CWP, despite the budgetary allocations has not managed to reach its target of 1 million participants by 2018. Instead, it has not exceeded 250 000 participants annually.

Phase IV of the EPWP has proposed a significant ramp up in work opportunities for the period 2019 to 2024 as summarised in the table below.

4 Contributors to poor economic performance - *continued*

Table 20: Overall EPWP Phase IV work opportunities targets per sector per year

	Infrastructure	Environment	Social	Non-State	Total
2019/20	321 260	181 458	171 703	307 076	981 497
2020/21	331 072	185 838	174 204	293 376	984 490
2021/22	340 114	189 588	175 253	305 017	1 009 972
2022/23	348 819	193 260	176 474	305 016	1 023 569
2023/24	358 503	197 103	178 120	305 016	1 038 742
Total	**1 699 768**	**947 247**	**875 754**	**1 515 502**	**5 038 271**

Source: DWPI,2019; EPWP Phase IV Business Plan 2019 - 2024

The EPWP plans to achieve these targets by emphasising social protection, convergence and capitalising on developmental opportunities. This has design implications, specifically for better mechanisms for targeting, better compliance with the EPWP employment conditions, and enhancing the regularity and predictability of income. These enhancements will require changes to specific design features of the EPWP as well as improved implementation. EPWP Phase IV has identified key operational improvements in several areas. These include:

- Strengthening the monitoring of the core EPWP principles to improve compliance with the EPWP guidelines.
- Expansion of the programme through replication and improvements in programmes across all sectors.
- Ensuring and monitoring the provision of quality services and the creation of quality assets.
- Enhancing the EPWP co-ordination and institutional arrangements including the PEP-IMC.
- Implementing projects and programmes that are more attractive to youth who are not in the education, employment or training sectors and increasing the participation of women across all programmes and sectors.
- Ensuring transparency and accountability through social audits and strengthening programme evaluation to enable improved performance of the programme guided by evidence.
- Strengthening impact evaluation of the EPWP and ensuring greater transparency and accountability through the introduction of social audits.
- Strengthening partnerships with the private sector and Technical and Vocational Education and Training (TVET) colleges (DWPI, 2019).

The Presidency has recently proposed expanding public employment programmes through new and innovative mechanisms that draw on implementation capacity within and beyond the state (Presidency, 2020). The objective is to reach a target of some 2.2 million additional work opportunities (above and beyond EPWP) by 2023/24. The report argues that public employment complements social protection by providing employment when market demand for labour is low. In addition to the benefits of income transfer, public employment has important corollary benefits. It

4 Contributors to poor economic performance - *continued*

gives participants structure, social networks, skills, capabilities, work habits, self-esteem, community recognition, ideas and pathways forward – while providing an income to sustain themselves in the short to medium term. In this way, it addresses many of the adverse social effects of long-term unemployment. At the same time, public employment allows the state to utilise unused labour – a strategic national resource – to create public value. If deployed productively to provide important public goods, public employment can fulfil the unmet needs of the wider society. As a cash transfer to vulnerable individuals, it also provides an effective bottom-up stimulus with beneficial spill-over effects. Public employment is intended to be counter-cyclical and should expand as required to respond to job losses in formal employment. As private sector growth recovers, the need for public employment should reduce.

The concept of 'social employment' expands the usual parameters of public employment to harness the energies and capabilities of the wider society. The report argues that 'social employment' must include public employment delivered by the state as well as non-state actors. Both mechanisms achieve the same effect, providing transfers to participants in return for socially meaningful work that improves public goods and services. The combination of the two mechanisms is important to achieve scale.

Social employment supports part-time work which encourages pathways beyond public employment, providing a platform that enables complementary activities. This includes pathways into self-employment or entrepreneurial activity by de-risking early stage economic activity by providing a regular and predictable source of income support while allowing time for participants to pursue other income-generating activities. Part-time public employment also supports the diversification of livelihoods into subsistence activity. The core economy is not able to absorb all those who are unemployed into decent work, so many people will continue to rely on highly precarious livelihood options. In these contexts, access to regular and predictable income from public employment supplements casual, seasonal, or subsistence activities, making these livelihoods less precarious. Part-time work also enables education pathways which are otherwise unaffordable and supports complementary work-search activity. The social protection literature illustrates that regular and predictable income of longer duration has better anti-poverty impacts than short-term episodes of full-time work.

The proposal is for social employment to be resourced through a Social Employment Fund (SEF), provided for through the fiscus in the first instance but with the intention of mobilising wider (non-governmental) resources. Current proposals are that PEP rates be set at the national minimum wage.

In the current crisis, and for the foreseeable future, PEPs will be important to achieving the overall objectives of the NDP. The main challenge is scaling the programmes in manner that is fiscally sustainable and delivers outcomes of value to society. This requires a reconfiguration of the models (as already proposed in the Presidency's position paper) to shift towards an expanded CWP-type model that provides predicable work and income for a broad spectrum of socially useful work (including services such as ECD, health care etc.) through intermediaries (NPOs and CBOs).

Educator support and After School Programmes (ASPs) should specifically receive attention. Most recently, government, working with Harambee, recruited 300 000 education support assistants. This is a good start but will need very careful management and coordination. There is also a

4 Contributors to poor economic performance - *continued*

growing community contributing to After School Programmes in South Africa. With more support, the ASPs could offer an important opportunity to support learners in their development, while also strengthening community based organisations and generating a wide range of first work opportunities for youth.

Priority actions relating to public employment

- Chart public sector bargaining to a sustainable result. This must involve discussions to define a longer-range public personnel strategy aimed at sustainable remuneration, better grading that enables staff to enter at the bottom layers, staffing structures aligned to delivery, and performance-linked benefits. This is likely to require a pact between the state, labour and other stakeholders.
- Expand public employment programmes (including the EPWP and new social employment proposals on new channels) to achieve an annual target of at least two million participants by 2023.

4.7 Building a capable state to deliver the economic development programmes of the NDP

A capable state is the essential foundation on which the objectives of the NDP will be delivered. The quality of delivery of all programmes – from public infrastructure, to skills development, to international trade – will be determined by the capability of the state. A capable state can implement policies effectively, uses state resources efficiently, and builds the confidence of citizens and the private sector.

However, if state capability is poor, then even the best-designed policies and interventions will not succeed. Private sector and international investor confidence will remain low. There will be misdirection of public funds and/or anaemic delivery of critical public programmes. The poor performance of local government in meeting minimum operational and financial management standards undermines basic service delivery, more equitable spatial development and fiscal sustainability.

As state capacity diminishes, the economic development goals of the NDP become more and more difficult to achieve, until their attainment becomes an impossible task.

The NDP details a clear set of actions to create and entrench a more capable state. Those fundamental priorities have not been addressed.

In part, this is because there has been a focus on ad hoc initiatives that address minor issues, rather than the substantial structural reforms that are required. The larger problem is a lack of leadership and strong political commitment to change. In some instances, new regulations have been introduced in respect of that change but enforcement has been lacking. One good example of this is found at the local government level, which is a critical location for delivery of public services. Although the regulations issued in 2007 in respect of the minimum competencies of

4 Contributors to poor economic performance - *continued*

senior managers in local government are sensible, 13 years later however fewer than half of all municipalities comply with these regulations. This reflects a failure of leadership to act decisively to enforce compliance.

Co-ordinated efforts across the three spheres of government are essential to the delivery of some of the most important NDP programmes, such as public infrastructure and basic services. To date, such co-ordination has not materialised. A capable state is one where co-operation and co-ordination is the rule, not the exception. The intergovernmental relations framework is premised on the assumption of such co-operation and co-ordination but does not contain legislated enforcement mechanisms to ensure these outcomes. Instead, it is dependent on political leadership to do so.

The analysis of the reasons for poor economic performance repeatedly highlights the extent of the economic impact of a failure to build a capable state. Staffing departments and SOEs with unsuitable people has resulted in poor implementation of policies, and poor governance outcomes. Excessive political interference in operations and appointments has undermined institutional continuity and staff morale, and severely undermined the role that the state-owned enterprises are intended to play in driving economic growth. The high turnover of senior staff, which undermines institutional stability, can be directly attributed to such political interference. Unstable institutions and a lack of accountability has undermined the relationship with the private sector and resulted in the misuse of significant amounts of state resources that should have been spent on implementing the NDP. The lack of political leadership to enforce a co-operative and co-ordinated intergovernmental working relationship has further undermined the implementation of policies.

Delivering the capable state means focusing on the fundamental priorities identified in the NDP, as a matter of great urgency. Failure to do so will entrench underperformance in addressing our employment, poverty eradication, and equity objectives.

The fundamental priorities in building state capacity include:

- Creating a skilled and professional public service, with the right skill in the right post. There are many critical posts – across all three sphere of government and within the state-owned enterprises - that are not filled with the appropriate people. This results in poor policy implementation and the mismanagement of budgets. The problem is particularly serious in local government, where fewer than half of the most senior positions are filled with persons who meet the regulated minimum competency standards.
- Stabilising and moderating the political-administrative interface to reduce the likelihood that the former will undermine the latter. The goal is reduced political interference in recruitment and dismissal processes. Political interference also reduces the efficacy of organisational performance management systems, and thus accountability and good governance.
- Addressing corruption and the misuse of state funds.
- A more constructive intergovernmental framework across the three spheres of government. A lack of clarity about the division of responsibilities and a political reluctance to enforce co-operation and co-ordination has created tension and instability and undermines the implementation of critical programmes such as public infrastructure. There is a clear lack of leadership in finding appropriate solutions. To date, the cluster approach has not had the desired impact.
- For the economy, the effort in applying these principles should be focused on:

4 Contributors to poor economic performance - *continued*

- High priority state-owned enterprises, starting with Eskom, Transnet, and PRASA.
- Municipalities, which have primary responsibility for the implementation and maintenance of basic infrastructure and the provision of basic services, beginning with the 25 largest municipalities.
- National and provincial departments with key infrastructure and human capital delivery obligations in terms of the NDP.
- National entities with responsibility for managing and implementing small business development and support programmes.
- Oversight and enforcement entities responsible for reducing corruption and illicit financial flows.

Priority actions relating to a capable state

- Implement the NDP recommendations in respect of recruitment processes in respect of senior public service appointments. Strengthen the role of the Public Service Commission and appoint an administrative head of the public service.
- Stabilise the political-administrative interface by delegating recruitment and staffing responsibilities to administrative heads.
- Strengthen municipal management and oversight by enforcing adherence to existing competency regulations in respect of Section 57 managers and implementing the Back-to-Basics programme.
- Implement transparent tender processes.
- Restore governance to the state-owned enterprises, focusing on Eskom followed by Transnet and Prasa.
- Strengthen intergovernmental co-operation.
- Meaningfully address corruption in state activity and misuse of state funds

SECTION 5:

PROPOSALS TO STABILISE AND THEN ACCELERATE TOWARDS VISION 2030

5 Proposals to stabilise and then accelerate towards Vision 2030

A contracting economy, falling employment, rising poverty and diminishing state resources and capacity pose a serious threat to achieving NDP 2030's goals of full employment and a decent life for all. Urgent action is needed for revitalisation and transformation.

Significant capacity has been lost in the public and private sectors, further exacerbated by the coronavirus pandemic. Even the most positive scenario will, at best, see steady growth in the coming few years. The worst scenarios see continued decline.

The recommendations do not change in the context of the Covid-19 pandemic, they are simply more urgent. The main differences are that stability will be more difficult and take longer to achieve. Moreover, some opportunities will be less accessible in the short to medium term.

5.1 Principles for inclusion in the NPC's recommendations for course correction

The following proposals are all based on achieving longer term results for the coming decade but with a focus on short- and medium-term implementation to lay a foundation for success.
The recommendations centre on:

- Addressing critical governance concerns, which we believe are currently the most significant binding constraints to progress.
- Immediately achievable actions that will bring about longer-term transformation and economic progress.
- Setting in motion actions for which there can be measurable implementation, and not simply processes.
- Ensuring the engagement and participation of state and non-state stakeholders.
- Evoking an early and significant private sector response. Any strengthening of public sector delivery should be designed to encourage private action, which will in turn spur rising growth rates.

In the areas requiring immediate action, any proposal involving regulatory or policy intervention should require government to explain why the current legal frameworks and rules are not sufficient. We expect the only exceptions to be situations where there is a significant gap in sectors that are highly regulated and/or depend on government-issued licences to operate. Clarity on government's intention in respect of land ownership is a good example.

The formulation of new policy or structures will generally have long lead times of two years or more. Credibility will be built on evidence of delivery and concrete improvement.

5.2 Summary of proposals

1. Responding to the Covid-19 pandemic

The Covid-19 pandemic has done significant harm to an already bruised economy. Safely returning to work and actively promoting employment must be a top priority for economic policymakers and stakeholders over the coming few years.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

- Ensure the adoption of risk-adjusted strategies to support safe human interaction in communities, at work, in transport and in education.
- Deepen financial support to businesses and workers who continue to be at risk.
- Boost employment sectors with significant potential to absorb labour and create substantial linkages to other sectors of the economy.
- Drive a tourism recovery plan.
- Expand public employment programmes.

2. Actions to restore fiscal and financial sustainability

Restore a pathway to sustainable flow of public sector resources on both the revenue and expenditure sides. This includes:

- Restoring and modernising tax collection capability.
- Raising impact of current spending.
- Restoring confidence in the budget process and commitment to a fiscal framework.
- Charting public sector bargaining to a sustainable result.
- Restoring governance in top infrastructure SOEs.
- Stabilise municipal finances.
- Taking credible action in top locations where there is risk of corruption.

3. Building the asset base: Capital

The foundations to promote investment are found in the eight sections of this Report, showing how to improve confidence of investors and attract capital. The recommendations below focus on strengthening public sector infrastructure and the civil construction sector.

- Rebuild the private civil construction sector.
- Drive implementation of top public infrastructure programmes.
- Reduce the infrastructure maintenance backlog across the state, especially in local government.
- Increase the capacity of the state to spend infrastructure budgets effectively.
- Restore governance in top infrastructure SOEs.
- Increase opportunities for private sector investment in infrastructure.
- Eliminate the ‘construction mafia’.

4. Building the asset base: People

Drive transformation through high priority education improvements including:

- Developing a standardized accountability framework in the school system.
- Raising the standard of reading comprehension and numeracy in the foundation phase.
- Strengthening monitoring of education sector trends to better understand ‘what works’ and how to course correct where needed.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

- Ensuring all schools have internet and supportive digital services, along with investment in digitally-enabled teaching and learning practices.
- Strengthening youth pathways from learning to earning.
- Driving equitable access for poor and working-class students to higher education and training, including a review of the funding model.
- Integrating skills development (across levels) and give effect to industry growth strategies.
- Deepening incentives for vocational training.

Support movement towards responsive labour markets to enable development by:

- Making the skills system responsive to the needs of employers.
- Enhancing support for work-seekers and placement – particularly the youth.
- Developing a more harmonious industrial relations system.
- Enabling SME compliance with labour regulation.
- Expanding of social protection and work-linked entitlements to vulnerable and non-standard workers.
- Forging a 'developmental pact' with public sector trade unions that strengthens pathways into the public service and tangible service delivery outcomes for citizens.

5. Digital readiness for the future

- Identify workable operating models to achieve SA Connect objectives. Some of the recommendations involve shifting the model away from a reliance on SOE delivery to one that involves private sector participation in finance and delivery.
- Sustainable funding models are needed to deliver on SA Connect commitments to low-income individuals and households, to communities and to public institutions.
- Accelerate the digitization of government.
- Migrate and release high-demand spectrum. Evaluate whether a WOAN is the best option to achieve the desired competitive access to wholesale networks.
- Deepen the ICT skills base.
- Enable e-commerce, digital finance and digital entrepreneurship.
- Strengthen partnerships to deliver on SA Connect.

6. Dynamism in employment-creating industries

- Promote employment creating sectors
  - Make more capital available for labour-absorbing investments.
  - Stimulate foreign demand, with immediate prioritisation of tourism.
  - Ease visa requirements.
  - Mitigate threats to industry and jobs caused by governance gaps.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

  - Drive construction activity.
- Expand South Africa's share of global export markets – particularly non-traditional exports and services.
  - Align public sector performance indicators more explicitly with expert performance.
  - Build capacity in critical areas that facilitate trade, such as standards-setting bodies, phytosanitary standards-setting and inspectorate, and veterinary controls.
  - Increase focus on higher value services exports such as finance, insurance, professional business services and online-retail for Africa.
  - Enhance focus on trade and investment within the region.
  - Assist new exporters to get listed on foreign supplier databases.
  - Deepen skills for exporting.
  - Build cluster capability conducive to domestic linkages, including services.
  - Deepen commercial diplomatic presence and intelligence.
  - Drive infrastructure that supports trade, particularly within the region.
- Adopt policies to create a more dynamic small business sector, including:
  - Leveraging local corporate, public sector and state-owned entity procurement for localisation and SMME promotion.
  - Stabilising and deepening the approach to promoting black empowerment.
  - Prioritising the effort to revitalise township and village economies
  - Shifting focus of SMME support to promoting entrepreneurship and dynamism – particularly among black Africans – by adopting a 'life-cycle' approach.
  - Ensuring representation and reflection of small enterprises in all priority sector plans

7. Public employment

- Chart public sector bargaining to a sustainable result.
- Expand public employment programmes especially in community care and related opportunities.

8. Actions to rebuild state capacity

- Create a skills and professional public service.
- Stabilise the political-administrative interface.
- Improve the operation of the intergovernmental framework.
- Restore governance in the top infrastructure SOEs.
- Strengthen municipal management and oversight.
- Introduce transparent tender processes to reduce the potential for corruption and make decision-makers accountable.

5.3 Recommendations

5.3.1 COVID-19 PANDEMIC SPECIFIC INTERVENTIONS AND CONSIDERATIONS

Some of these Covid-19 related proposals are also listed in sections below. However, they are brought together here to elevate them.

Ensure the adoption of risk-adjusted strategies to support safe human interaction in communities, at work, in transport and in education

WHY IS THIS IMPORTANT?	ACTION
The Covid-19 pandemic health response, by locking down and constraining economic activity, has done significant harm to an already bruised economy. To avoid damage and loss of capacity through further lockdowns, 'risk adjusted strategies' are required across the board where people engage. These services will all be useful in the future for strengthened health and safety in the workplace, health monitoring, community safety, and other purposes.	Deepen 'risk-adjusted strategies' that act like dynamic early warning systems and virus containment measures. This needs to combine information systems, testing, contact tracing and isolation, along with physical distancing, wearing of masks and sanitizing so that new outbreaks can be contained without necessitating further lockdowns. Business and government to co-operate in building Covid-19 workplace support, surveillance and compliance service to cover all workplaces. Strengthen effective mobile information service providing regular updates and FAQs and enable pushing up of information. Ensure widespread use of CovidAlert. Deepen engagement with communities to identify strategies that protect life and livelihoods that can be sustained in a variety of living conditions. Ensure faster rollout of ubiquitous affordable broadband critical to all Covid-19 interventions.

Deepen support to Covid-19 impacted business and workers

WHY IS THIS IMPORTANT?	ACTION
Firms have been negatively affected by the lockdown and there is likely going to be a reverberation impact even after lockdown. It is possible that business failure and contraction will continue over the course of the coming year, at least. This will dramatically reduce the potential economic rebound.	Widespread financial support to all affected businesses and workers to limit the extent of permanent damage. Strengthen use of ETI as a general labour subsidy. Strengthen loan guarantees.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

Boost employment sectors with significant potential to absorb labour and with substantial linkages to other sectors of the economy

WHY IS THIS IMPORTANT?	ACTION
The Covid-19 health response attacks employment-generating sectors. Limiting permanent damage to these sectors and supporting the recovery through structural interventions, consistent with the goals of the NDP, is critical. This includes channelling resources to support the recovery of areas of the economy that can create employment and facilitate the entry and growth of dynamic businesses.	Provide budgetary and other support to limit permanent loss of employment caused by the Covid-19 pandemic. Focus on dynamic activities with significant linkages to other parts of the economy. Channel additional and re-prioritised spending to: • social housing and those subsidised housing projects with the greatest multipliers such as informal settlement upgrades; • construction, maintenance and refurbishment of public buildings; • construction of public transport systems; • implementation of the IRP and associated IPP energy investments such as battery storage; and • more meaningful expansion of agriculture and agro-processing industries.

Drive a tourism recovery plan

WHY IS THIS IMPORTANT?	ACTION
The tourism sector has been amongst the hardest hit by the pandemic. There are significant linkages with other sectors and substantial employment implications – especially in rural areas. South Africa's opening of borders needs to be done sustainably.	Develop a strategy to re-open the tourism sector within a risk-adjusted framework. Introduce Covid-19-health passports, ubiquitous Covid-19 and antibody testing with rapid results, deeper support to business to ensure compliance with Covid-19 health protocols, the availability of health sanctuaries, the use of masks and disinfection, and physical distancing. Covid-19 compliance rating systems could help attract customers back. An international marketing drive and easing of visas will be needed to attract tourists to South Africa.

Expand public employment programmes in response to Covid-19 impacts

WHY IS THIS IMPORTANT?	ACTION
High and rising unemployment rates will worsen as a result of the Covid-19 pandemic. The Public Employment Programmes need to be dramatically expanded, consistent with the NDP's target of having two million participating annually.	Find innovative solutions to expanding the reach of the PEPs that can be sustained financially and institutionally. Expand PEPs to reach two million annually.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

5.3.2 ACTIONS TO RESTORE FISCAL AND FINANCIAL SUSTAINABILITY

Restore pathway to sustainable flows of public sector resources on both the revenue and expenditure sides

WHY IS THIS IMPORTANT?	ACTION
The fiscal framework needs to be clear, credible, sustainable and in service of the NDP 2030's top objectives. This is the most significant and complex resource allocation that takes place, and acts as a foundation for financial outcomes more generally and the availability of resources for long-term transformation needs. This calls for a restoring of credibility.	Identify pathway to a sustainable fiscal framework based on improved tax collection and growing public sector efficiency that enables more delivery for the same or fewer resources. With this renewed credibility, re-establish the aligned group of National Treasury, business, and labour in representing South Africa to investors.

Restore tax collection capability

WHY IS THIS IMPORTANT?	ACTION
Revenue collection is the main fuel for redistribution, service delivery, and infrastructure investment. Where collection deteriorates, attention is needed to restore tax to optimal levels. It is far better to strengthen tax collection than to raise tax rates. Raising taxes takes money away from those who are committed to tax morality. It therefore fines those that pay, to the benefit of avoiders. Raising income and corporate taxes, on the other hand, encourages tax avoidance and can inadvertently result in reduced receipts. Structural and institutional improvements will create a sustainable fiscal path that involves improved tax collection and measures to improve delivery per Rand spent.	Restore tax buoyancy, the tax collected at any rate of GDP growth, as a matter of priority, and de-emphasise tax increases. The long-run tax buoyancy ratio is about 1.1 but fell to 1.01 and 0.95 in 2016/17 and 2017/18, respectively and is expected to fall to 0.93 in 2020/1. This requires a combination of actions, including a review of, and investment in, the South African Revenue Service (SARS)'s collection capability and its efforts to find new sources of revenue. Proposals to restore confidence should revitalise growth leading, in turn, to rising tax receipts.

Chart public sector bargaining to sustainable result

WHY IS THIS IMPORTANT?	ACTION
Public sector remuneration has grown unsustainably, in a way that is not connected to performance. It hinders the ability to hire staff to enhance service delivery.	Initiate discussions to define a longer-range public personnel strategy. This should be aimed at sustainable remuneration, better grading that enables staff to enter at the bottom layers, staffing structures aligned to delivery, and performance-linked benefits. This is likely to require a pact between the state, labour, and other stakeholders. The approach is outlined in section 5.3.7 below.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

Raise impact of current spending

WHY IS THIS IMPORTANT?	ACTION
It is well known that South Africa spends extensively on areas such as education and health, with relatively limited impact on outcomes. Given our constrained fiscal resources, it makes sense to focus on raising the efficiency and effectiveness of public sector spending. These improvements would, in turn, raise economy-wide productivity, and economic growth rates.	Strengthen public expenditure by prioritising improvements in efficiency and productivity and reducing corruption. This should be prioritised over simple cost-cutting, especially where it comes at the expense of top priorities in delivering foundational social services such as basic education or primary health. There are four ways this can be done: 1. Reduce corruption 2. Improve internal or operational efficiency 3. Find better modes of delivery 4. Find more effective ways of balancing policies Up to four focused high-impact interventions to rein in spending and raise efficiency in one of these four ways should be identified and implemented, with transparent monitoring. Private stakeholders can be engaged to inform and support the approach to improving efficiency.

Restore confidence in the budget process and a commitment to the fiscal framework

WHY IS THIS IMPORTANT?	ACTION
The national budget process is the most important allocation of resources, and the most complex in balancing different interests, and short-, medium- and long-term objectives. There is a natural tension between the finance role and other functions in any organisation but the complexity and far-reaching impact of national budgeting requires especially strong leadership and clarity in its communication to guide market actors.	Provide clear and credible leadership from the President, which is in alignment with the Minister of Finance, and the Minister's Committee on the Budget, both in practice and appearance. Demonstrate full commitment to the budget process. Do not make material financial decisions outside of these lines.

Restore governance in top infrastructure state-owned entities

WHY IS THIS IMPORTANT?	ACTION
Governance must be restored in the top infrastructure state-owned entities with significant service delivery roles and/or the largest component of government exposure to guarantees.	See section 5.3.3 below

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

Strengthen municipal management and municipal finances

Strengthen municipal management

WHY IS THIS IMPORTANT?	ACTION
There are extensive improvements needed in the municipal system, and capable leadership will be necessary for its implementation. Municipalities pose significant financial threats as evidenced from deteriorating AGSA reports. This also negatively impacts on service delivery.	See proposals in section 5.3.8 below.

Strengthen municipal finances

WHY IS THIS IMPORTANT?	ACTION
The current poor state of municipal finances threatens the provision of basics services (and thus the social wage) and contributes directly to the lack of infrastructure maintenance. Consistently poor audit outcomes (disclaimers) are associated with significant levels of corruption and the theft of public resources.	• Undertake a critical review of the local government fiscal framework. • Support the development of credible, funded, and cash backed budgets. • Improve procurement processes, including oversight. • Support Post-Audit Action Plans with implementation. • Strong focus will have to be paid on reversing the negative audit outcomes. No disclaimer outcomes should be tolerated. • The new Public Audit Amendment Act (2018) gives the AGSA additional powers to enforce recommendations and to recover funds. This legislation should be utilized to its full extent to reduce non-compliant and wasteful expenditure.

Credible action on top locations where there is risk of corruption

Credible appointment of senior public servants

WHY IS THIS IMPORTANT?	ACTION
Top leadership in government sets and maintains the standard for integrity and ethics for the rest of the public service and for the standard of doing business with the private sector.	There must be accountability in the appointment of new senior public servants, adhering to the values of the Constitution. They must be 'fit and proper', have integrity, be rational and objective. Amend the PSA to delegate staffing authority to the administrative head of department. Implement NDP proposals for the appointment of senior public servants. See section 5.3.8 below.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

Transparent tender processes

WHY IS THIS IMPORTANT?	ACTION
Extensive evidence of corruption in tender processes requires that they be made as transparent as possible to restore faith in governance and ensure that public funds are well spent.	Implement open tender processes and transparency in procurement, focusing on areas of top risk. SOEs require special attention, with examples including Eskom coal and Transnet locomotive procurement.

Credible action on Prosecutions

WHY IS THIS IMPORTANT?	ACTION
A clampdown on corruption will only be made credible if perpetrators are prosecuted. Evidence of credible action on the most significant areas of corruption in public and private sectors.	Credible leadership installed in law enforcement and in the National Prosecution Authority (NPA) as enshrined in the Constitution.

National pact on corruption

WHY IS THIS IMPORTANT?	ACTION
There is evidence of grand corruption across public and private stakeholder groups. While the state should show leadership, a commitment across government and its entities, the private sector, trade unions, and religious and community sectors is needed.	Government and key players within civil society to lead the process of a national pact on corruption, with commitments from all major stakeholders. This extends to illicit flows, corrupt transactions, and collusive behaviour. An agreement on consequences is needed, including the relaxing of locus standi rules in civil cases permitting a broadened base of litigants to recover abused public money.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

Stop illicit financial flows

WHY IS THIS IMPORTANT?	ACTION
Significant illicit flows, mostly due to transfer pricing and trade mis-invoicing, result in substantial tax avoidance. The risk tool flags prices for commodities that are not aligned to the benchmark price, allowing customs to vet the consignment before it reaches South African borders. The Unique Consignment Reference ensures that consignments are checked, propelling members to share information, coupled with the monitoring mechanism. A beneficial ownership register ensures that politically exposed persons and their families cannot hide assets. The register will identify the ultimate beneficiary of large transactions involving state-owned entities, mining and telecommunications rights, and tender fraud in the public sector.	Address losses due to the largest illicit flows, and halt them in future through the following measures: • Introduce a risk-based, real-time benchmark pricing tool in SARS' customs risk engine. • Emulate the tax successes and practices in the customs and excise area to promote stronger information sharing between customs authorities across global jurisdictions. • Introduce a Unique Consignment Reference instrument (as detailed by the World Customs Organisation). • Roll-out country-by-country reporting for multi-national corporations. • Implement beneficial ownership registers that consolidate the information across various forms of legal entities.

5.3.3 BUILDING THE ASSET BASE: CAPITAL

The foundations to promote investment are found in the eight sections of this Report, showing how to improve confidence of investors and attract capital. The recommendations below focus on strengthening public sector infrastructure and the civil construction sector.

Rebuild the private civil construction sector

WHY IS THIS IMPORTANT?	ACTION
South Africa's civil construction sector weakened dramatically over the past decade. Unless there is commitment over many years to rebuild capacity, significant expansion in civil construction may require procurement from overseas. The construction output could be supportive of economic development but the process of building it might not. In a highly circumscribed Covid-19 world, domestic construction is one of the remaining opportunities within our power to implement.	Drive re-development of the civil construction sector. Strengthening state capacity in its delivery, oversight and procurement of infrastructure projects, as proposed below, will be one important way of doing so. Lift impediments to the expansion of emerging black-owned civil construction firms. Partner with the construction sector on capacity building and guidance on critical minimum support needed. In 2020, the construction sector is participating in the PPGI process to propose capacity building and strategies for course-correction. Given the great need to succeed in this area, there should be an effort to dramatically elevate a partnership between government and industry to the quality of that found in the automotive industry.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

Increase the capacity of the state to spend infrastructure budgets effectively

WHY IS THIS IMPORTANT?	ACTION
The value from existing budgets must be maximised – full spend, rapidity of implementation and quality of outputs. Better delivery by the state will also support private sector and investor confidence, and thereby encourage more PPPs and leverage additional funding. This requires improving capacity with implementing and oversight institutions and developing appropriate procurement and delivery management processes.	Improve capacity across the state with respect to infrastructure project design, costing, and implementation. This requires a detailed review of relevant operational structures to ensure optimum design of infrastructure, planning, budgeting and implementation functions. These revised structures are to be staffed with suitably skilled persons. Where there are resource constraints on creating such capacity (smaller municipalities, etc.), an alternative source of expertise and support is to be provided. Develop procurement and delivery management policies and processes more appropriate to the requirements of infrastructure delivery. Increase built environment capacity in the OCPO. Start with focus on the three critical SOEs (Eskom, Transnet, PRASA) and key infrastructure departments (Energy, Water).

Drive implementation of top public infrastructure programmes

WHY IS THIS IMPORTANT?	ACTION
The 2019 Medium Term Budget allocates R630 billion to infrastructure projects and project preparation. Existing infrastructure plans must be implemented. Slow implementation has two effects. First, it means that infrastructure is not in place as needed to achieve social and economic goals. Second, it does not have the intended stimulatory effect on the building and infrastructure sector and wider economy.	Stop promotion of mega-projects where smaller, affordable and flexible projects are possible. **Project design and implementation capacity:** • Build a pipeline of large public infrastructure projects to be evaluated and funded through the budget facility for infrastructure. • Strengthen the project design and implementation capacity of government departments in order to feed more projects into the Budget Facility for Infrastructure (BFI). • Bring together government, DFIs and commercial banks to harness existing credit facilities, technical know-how and oversight to help under-leveraged parts of the public sector (specifically metros) to ramp up spending on water, transport and energy infrastructure. • Standardise procurement and delivery management procedures and provide clarity on the inconsistencies in the Standard for Infrastructure Procurement and Delivery Management. **Energy** • Set up separate and independent entity for the system operations, planning, power procurement, purchasing and contracting functions of electricity. • Ensure that the regulator is sufficiently mandated, funded and capacitated to assess, monitor and appropriately manage any possible electricity regulatory reform process independently. • Enable immediate self-supply options for municipalities and customers and fast-track registration/licensing processes for these.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

WHY IS THIS IMPORTANT?	ACTION
The continued emphasis on mega-projects is contrary to NDP recommendations. Proud announcements should be made about smaller, flexible, affordable projects that improve alignment to the NDP imperatives – more high value-added employment-generating production, reliable and accessible services and the densification of high-quality, affordable human settlements.	• Expedite S37 Ministerial Determinations to enable implementation of government policy (IRP 2019) with particular focus on dominant expected new-build technologies (solar PV and wind). • Loosen regulations as it relates to embedded and distributed generation to enable increased scale of investments. • Streamline registration and licensing processes across relevant institutions. • Decision on natural gas fired generation capacity requirement is necessary to enable investments to flow. Existing policy (IRP, 2019) already outlines this need but enabling legislation not yet published. **Transport** • Implement NDP recommendations for commercial and commuter transport Municipal water • Leverage conditional grant funding aimed at municipalities to increase investment in water infrastructure to reduce water losses. **Housing** • Intensify people's housing process, aimed at households with income below R 3 500 enabling self-build and boosting the demand for construction and materials. • Increase the number of subsidies disbursed in the finance-linked individual subsidy programme to boost the demand for housing finance and new housing development for households with an income between R 3 500 and R 12 500. Telecommunications - see section 5.3.5

Reduce the infrastructure maintenance backlog across the state, and particularly in local government

WHY IS THIS IMPORTANT?	ACTION
The deteriorating state of existing infrastructure must be addressed. A national infrastructure maintenance programme will support the construction industry and create employment opportunities. Sufficient funding must be available to prevent further decline in municipal infrastructure and the delivery of basic services.	Development of a detailed maintenance backlog implementation plan, focussing on infrastructure most important to the goals of the NDP. The national infrastructure maintenance policy must be revised, and funding and capacity gaps addressed. Review the funding arrangements for local government infrastructure development and maintenance. Initially identify the 25 most important sites in respect of infrastructure maintenance and focus on those.

Eliminate the 'construction mafia'

WHY IS THIS IMPORTANT?	ACTION
The 'construction mafia' are destabilising and disrupting construction projects around the country, extorting and threatening physical safety. Uncertainty around the 30% SMME allocation is sometimes exploited.	Clarify approach to B-BBEE and promotion of SMMEs. Criminalise this racketeering, with arrests and prosecutions. Promote community participation. Government to ensure the engagement and expectations be set at the outset of projects.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

Restore governance in top infrastructure state-owned entities

WHY IS THIS IMPORTANT?	ACTION
Governance must be restored in the top infrastructure state-owned entities with significant service delivery roles and/or the largest component of government exposure to guarantees. The SOE procurement budgets have been the main targets for corruption and the theft of public resources. Reversing this situation will improve SOE delivery and increase the effectiveness of their infrastructure budgets in achieving the goals of the NDP. More effective infrastructure procurement processes will improve delivery, and more effective oversight will reduce corruption. Eskom needs to be the top priority, followed by Transnet, PRASA and the water boards.	Focus on the top state-owned entities impacting on service delivery and/or government guarantees now posing a risk to national financial stability. By far the most urgent attention should be focused on Eskom. Concerns in respect of exposure further extend to SANRAL and SAA. Concerns in relation to financial stability and service delivery would further extend focus to Transnet, PRASA, PetroSA and the water boards. The governance of the highest risk infrastructure SOEs should be reviewed as a matter of priority by no later than mid 2021, and significant departures from acceptable standards be rectified by the end of 2021. Establish objective and transparent staff appointment processes for SOEs The following needs to be done as a matter of urgency: • An appropriate role for the state in oversight. • Credible capability and non-conflicted state-owned entity boards. • The stable appointment of non-conflicted and appropriately experienced CEOs and top executives (or appointing an interim turnaround executive structure where needed). • Procurement transparency. • Commitment to sustainable business and financial models. • Clarity on public interest mandates in support of delivering on the NDP. • Include decisions on envisioned market structure and regulatory approach. • Deliver a visible report card on progress. Review portfolio of SOEs in the medium term

Increase opportunities for private sector investment in infrastructure

WHY IS THIS IMPORTANT?	ACTION
There is significant potential for increasing private sector investment in public infrastructure in South Africa. PPPs have not resulted in sufficient scale of private sector investment in public infrastructure in South Africa, with many relying on the fiscus for their income streams or being under-written by government guarantees. The emphasis needs to shift to projects which do not further impair government's balance sheet, and which do not rely on the fiscus for their income streams. The successful Renewable Energy Independent Power Producers Programme (REIPP) provides an example of a different approach to PPPs.	Mobilise private sector investment in key backlog areas such as energy, municipal water and sanitation using innovative models that do not transfer risk to the fiscus' balance sheet, along the lines of REIPP. Identify pilot projects in six municipalities. Recommendations to accelerate the delivery of SA Connect centre on PPPs with government as an anchor tenant. See section 5.3.5

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

5.3.4 BUILDING THE ASSET BASE: PEOPLE

a. Education and skills

Develop a new standardised accountability framework

WHY IS THIS IMPORTANT?	ACTION
Better systems to gauge the performance of primary schools are essential if principals are to be held accountable and reliably evaluated. Assessments conducted and marked within schools play an important role but, as emphasised by the NDP, there is also a need to reintroduce a 'system-wide measure of quality for all primary schools' along the lines of the ANA programme, which was halted in 2015. The new system should avoid the pitfalls of ANA.	Develop and negotiate a new standardised accountability framework and system to better understand overall schooling performance. The accountability framework must allow for the monitoring of learning as well as socio-economic status. **Short term actions:** Undertake the technical work to assess what is feasible and optimal in respect of a new standardised performance monitoring approach. Develop technically robust and negotiated accountability framework and system. **Medium-term actions:** Pilot the new accountability framework and system.

Raise standard of reading comprehension and numeracy in the foundation phase

WHY IS THIS IMPORTANT?	ACTION
By Grade 4, about 75% of children are behind on the curriculum, and 78% of Grade 4s cannot read for meaning in any language. There is therefore no foundation for the majority of learners from low-income households for effective learning. Learning to read for meaning is the most important skill children acquire in primary school. Evidence from the Early Grade Reading Study initiated by the DBE in conjunction with the University of the Witwatersrand and international partners shows that learning outcomes of children only improve when teachers are equipped with the right books and lesson plans and – crucially – are supported by a coach who visits them in their classroom. The Minister of Basic Education launched a Read to Lead Campaign in 2015. This campaign should be elevated and given far more prominence. All stakeholders should commit to participating in it.1Reading for meaning is an important stated priority in the 2019-2024 MTSF.	early-grade reading using proven evidence-based interventions. By 2030 (in line with the SDGs) every child should show substantial improvement in the ability to read for meaning in their home language. **Short term actions:** Immediate action should proceed on the following: • Roll out the DBE's Early Grade Reading Programme to build and deploy qualified, competent and experienced coaches, including the systems to successfully recruit, train and appoint them. • Distribute graded reading material in home language and English as a First Additional Language to Foundation Phase classrooms and integrate them into the lesson plans in low-quintile schools. • Support the national reading for enjoyment campaign – Nal'ibali to reach a critical mass of children and adults. Accelerate roll out of access to affordable, high-quality early learning services to 3 and 4-year-old children through the ECD Coalition of Donors working with the Department of Social Development. **Medium-term actions:** Monitor and expand implementation initiatives.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

Strengthen monitoring of sectoral trends

WHY IS THIS IMPORTANT?	ACTION
The monitoring of trends and progress in the education sector is often weak. Inaccurate, unclear or missing information is common. This compromises not just government planning work but the public debates which influence education policymaking to such a large degree. The plans of the Department of Higher Education and Training (DHET) suggest that more should be done to monitor the impact of the post-school sector on societal trends, including the acquisition of qualifications in the population, and employment. A part of the challenge is to use existing data in better ways but there should also be a lively debate around where investments into new information systems should be directed. Unlike the basic education sector, little is known about the quality of the various post-school institutions, and the inequality of this.	What is required are interventions to use existing data in better ways and investments into new information systems. DHET's own extensive database of students should be used better for planning purposes. In particular, it is important to link these data to the learner record data the DBE has, in part to clarify movements between schools and TVET colleges, and the extent to which youths are 'double-dipping' in the sense of obtaining two qualifications at the same level, first in a school and then in a college. Spending per student at the sectoral and sub-sectoral level should be better monitored and projected into the future. This could make future budget constraints clearer and bring forward the debate around the diversification of funding sources. **Short-term actions:** Review existing data sets, including administrative data and develop a sectoral tracking methodology. Implement a process to track spending per student at the sectoral and sub-sectoral level. Produce annual findings, at minimum. **Medium-term actions:** Enhance data collection and analysis and expand reporting on sectoral trends as well expenditure.

Ensure all schools have internet and supportive services, along with investment in digitally-enabled teaching and learning practices

WHY IS THIS IMPORTANT?	ACTION
The Fourth Industrial Revolution (4IR) concept is now commonly used in South Africa's education policy debates. To make this a reality all education institutions must have access to the internet and digital services and curriculum. It is noted that the fundamentals of education delivery should not be compromised.	Ensure all schools have internet, supportive digital services and free WiFi by 2023. Invest in centres of excellence focused on digital teaching and learning methodologies. **See section 5.3.5 for full set of recommendations**

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

Strengthen youth pathways from learning to earning

WHY IS THIS IMPORTANT?	ACTION
There has been minimal net employment creation for youth under the age of 25 over the past decade. South African historically disadvantaged youth especially have poor access to first work opportunities. Private and public sector co-operation is needed at a significantly greater scale to bridge this gap. The DHET targets for promoting workplace opportunities for those in PSET was 140 000 by 2018/19, rising from 107 504 in 2015/16. The CEO of the YES campaign has set targets of one million internships over three years. There should be a reasonable prospect of being employed after the opportunity. This will require business and government commitment to employment creation and to working with the higher education and training sector to ensure that students obtain realistic career guidance and that their courses are relevant to labour market needs.	Build on successful public and private sector labour market interventions that connect youth in PSET as well as NEETs to workplace-based learning opportunities. Examples include Harambee or Gauteng's Tshepo 1 million all of which are now contributing to the national Pathway Manager under the Presidential Youth Employment Initiative. Business and government are to ensure that real work opportunities are available for student and graduate interns, and for students engaged in learnerships and apprenticeships. Business and government are to build on emerging public-private partnerships in provision of TVET programmes. Targets for workplace-based learning opportunities need to be set, balancing realism and ambition. In the first instance, find middle ground between low DHET PSET workplace-based learning opportunities, targets and high CEO YES internship targets with the aim of improving the impact of PSET. The objectives should be to lift the PSET throughput rate and post-PSET employment chances. **Short-term actions:** Expansion of the PYEI Pathway Management Network. Ensure all TVET colleges encourage their learners register on the mobi-site. Develop a framework and provision of technical assistance to support TVET's to partner with business more effectively. **Medium-term actions:** TVET colleges use the pathway management network as a mechanism for the selection of candidates.

Drive equitable access for poor and working-class students to higher education and training

WHY IS THIS IMPORTANT?	ACTION
The number of students in HET from low-income households has expanded substantially since the advent of democracy. To have the desired effect on life chances, graduation rates need to be dramatically improved. The introduction of fully subsidized HET and innovative private sector financial solutions for poor and working-class students will dramatically reduce barriers and stress on the students and their families and raise the chance of completion.	NSFAS is a significant and critical public entity that urgently requires the installation of proper governance and a continued strengthening of capacity, procedures and systems. The appointment of suitably qualified and experienced leadership is urgent, starting with the CEO and the Board by the first quarter of 2021.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

WHY IS THIS IMPORTANT?	ACTION
Government has committed to free access to university and TVETs for households with annual incomes below R350 000. The commitment is to phase this in over five years. In 2019, 374 625 university students and 346 270 TVET students benefited from the scheme. There is evidence that NSFAS funding has improved throughput rates The NSFAS has been in Administration since August 2018. Much progress appears to have been made in improving its administration of government bursaries, but much still needs to be done. There are emerging efforts by the private sector to narrow the funding gap for students that do not qualify for NSFAS and such services should be encouraged.	Review the overall funding model to: • Assess the fiscal sustainability of the commitments against the targets and recalibrate as required. • Strengthen performance-based funding to encourage and support throughput rates. • Review the funding model to introduce greater parity between universities and TVET to encourage PSET participation (see also further below.). The private sector and NSFAS must develop a funding scheme for 'missing middle' households that do not qualify for NSFAS funding.

Integrate skills development (across levels) and giving effect to industry growth strategies

WHY IS THIS IMPORTANT?	ACTION
TVET enrolments have doubled without concomitant capacity development. Some companies have introduced joint offerings with both TVET colleges and universities that effectively expand the responsiveness of the PSET system. These should be encouraged and expanded. Linkages between the PSET system and the needs of business to support labour productivity, competitiveness and industrial expansion are weak. There is a need to embed the decisions about skills into decisions about workplace organisation and decisions around technology.	Establish a process to integrate skills planning into the sector master plans involving industry. This requires a focus on what has typically been offered by TVET and HET institutions as well as supported by levy-based institutions (SETAs) The purpose is to restore confidence in the PSET system, improve its relevance for both participants and employers because of the enhanced employability of its graduates and the improved opportunities within the workplace. Additionally, the intent is to better align the PSET system with the country's needs and economic development trajectory including at a community level through the active engagement of the CET institutions. **Short-term actions:** Establish a process to ensure engagements between DHET, dtic, SETAs and industry associations to develop skills development plans that integrate the different forms of provision and inform decisions about the industry.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

WHY IS THIS IMPORTANT?	ACTION
The current separation of policy responsibility between DHET and DEL and dtic may inhibit this integration but key sectors are overcoming this and demonstrating the value of this approach. Through better alignment of planning, provisioning and appropriate incentives participants in the PSET system will be able to receive more relevant qualifications and/or short skills programmes and increase employment outcomes. Equally, firms will have greater assurance that skills being developed are relevant and appropriate for their needs and the changing workplace.	This should occur using existing strictures such as the Jobs Summit and its working groups. Immediate interventions include: Develop a national plan for higher education (including PSET) enrolments to support provisioning and funding of institutions. Develop integrated vocational skills plans that integrate the currently separate higher education plans, SETA skills plans and Sector Master plans in a manner that ensures TVET and private sector participation. **Medium-term actions:** Over the medium-term there needs to be the enhanced development of partnerships at TVET level with business. This will require an appropriate funding model as well as additional capacity at TVETs to develop and maintain such partnerships.

Deepen incentives for vocational training

WHY IS THIS IMPORTANT?	ACTION
South Africa faces a significant shortage in several critical skills. This not only impacts productivity and competitiveness but limits the development and expansion of new industries. There is a need to increase participation in the PSET system to better support employment outcomes and reduce pressure on HEIs (degrees that do not enhance short-term employment outcomes). Available evidence also indicates that employers prefer graduates of more advanced and industry specific PSET programmes given the impact on productivity. This also indicates that graduates of such PSET programmes significantly improve their chances of employment. Evidence also suggests that there are areas of growth that require immediate short-term skills programmes.	The need to ensure that funding arrangements support longer term stability of the system and short-term responsiveness. The qualification framework must also allow sufficient flexibility so as to enable providers to be more responsive. Where short programmes are required that are not accredited, funding incentives (such as pay for performance) should be implemented so that it is possible to understand quality through access to employment. The intent is 'equalise' the funding system so that better choices can be made. **Short-term actions:** In accordance with enhanced skills development plans, DHET need to develop an appropriate framework for planning and setting of incentives (for example through the SETAs) to enhance participation in the PSET system. Most immediately, SETAs should review their grant criteria and funding allocations to promote longer-term, more advanced skills development coupled with pay for performance models

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

b. Labour markets that are adaptive and responsive

Make the skills system responsive to the needs of employers

WHY IS THIS IMPORTANT?	ACTION
There have been numerous studies over the past decade (including in the NDP) that have stressed the need for the skills system to become more responsive to the needs of employers. Employers also need to become more invested in the operation of the system. Little progress has been made on this front. The result is that there is a gap between the skills output of the education and PSET sectors and the skills needs of the economy. This imposes additional costs on employers and acts as an additional disincentive to employment. The main reason this situation persists is that the necessary incentives and accountability for education and PSET institutions to engage more productively with employers are not in place. This issue is also discussed under the recommendations relating to education and skills development.	This issue is also discussed under the recommendations relating to education and skills development.

Enhance support for work-seekers and placement – particularly the youth

WHY IS THIS IMPORTANT?	ACTION
Persistently high and increasing levels of youth unemployment indicate that current initiatives have not been as effective as they need to be. While this has much to do with prevailing economic performance and employment growth, the youth are disproportionately 'locked out' of the labour market. This requires interventions around the alignment of skills development (as discussed above) but also additional measures to support the entry of people below the age of 35 into employment.	Clarify the role of ESSA in work-seeker support and placement. Scale-up this support to incorporate other programmes and areas of the economy using technology platforms. Establish consolidated work-seeker support and placement platforms. Expand the youth employment tax incentive (YETI) in concert with the third phase stimulus measures for industry. It should now be available to smaller businesses and informal enterprises. As envisaged in the Presidential Youth Employment Initiative, partnerships need to be supported to improve scale, information and delivery systems.

Develop a more harmonious industrial relations system

WHY IS THIS IMPORTANT?	ACTION
South Africa has a long history of adversarial relationships between employers and employees. This has resulted in protracted disputes and work stoppages and undermined productivity improvements and competitiveness in both domestic and international markets. This has contributed to declining global market shares of South African products, and to lower employment growth.	Shift the focus of the CCMA away from dispute resolution to dispute prevention. It will need to be appropriately capacitated and resourced to do this. Enhance the capacity of labour market institutions such as the CCMA, the Labour Courts, Bargaining Councils and Labour Inspectorate.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

Enable SME compliance to labour regulation

WHY IS THIS IMPORTANT?	ACTION
Labour regulation has been designed with large firms in mind. Its design can impose excessive costs for small firms that do not have the bureaucratic structures or financial space to cope.	SMEs should be accommodated in labour regulatory design to enable compliance. There should be better design and less reliance on exemptions.

Expansion of social protection and work-linked entitlements to vulnerable and non-standard workers

WHY IS THIS IMPORTANT?	ACTION
The Covid-19 crisis, and the livelihoods challenge it presents, indicates the importance of expanding workplace protections and work-linked entitlements to the informally employed and the unemployed. This requires that the Department of Employment and Labour (and its related agencies) is appropriately capacitated to deal with crisis-level applications/claims as a matter of course rather than a black swan event. More attention is also needed for gig-economy and informal workers.	Investigate and expand contributory schemes, occupational health and safety provisions and skills training opportunities to those informally employed, and those unemployed, as envisaged in the NDP. Adopt reforms aimed at simplifying unfair dismissal law and enhancing the efficiency of the CCMA and Labour Court.

Forge a 'developmental pact' with public sector trade unions that strengthens pathways into the public service and tangible service delivery outcomes for citizens.

WHY IS THIS IMPORTANT?	ACTION
There is an urgent need to 'renegotiate' and review pay progression, benefit structures and OSDs and finalise the debate on what constitutes an essential service. There is also a need to expand lower grade, entry-level roles in clerical, administrative and service-focused functions.	Negotiate a developmental pact with public sector unions that addresses critical and outstanding issues.
More harmonious industrial relations within public sector give rise to improved service delivery.	See section 5.3.7.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

5.3.5 DIGITAL READINESS FOR THE FUTURE

Identify workable operating models to achieve SA Connect objectives

WHY IS THIS IMPORTANT?	ACTION
The model that relies on SOEs to implement SA Connect is not working, nor is a model that relies on spectrum licence obligations. Universal access and public sector connectivity should shift to one that relies on government as procurer and regulator but perhaps not as implementer. This could leverage deep capability in the private sector. The Western Cape and Tshwane offer two different examples.	Shift model of delivery away from SOE reliance to one that involves procurement, regulation and partnerships. Government may want to consider identifying a few top priority pilots where PPPs are used to introduce overarching digital modernisation. Examples include policing, health, education, water or smart cities.

Determine sustainable funding models to deliver on SA Connect commitments to low-income individual and households, to communities and to public institutions

WHY IS THIS IMPORTANT?	ACTION
SA Connect is underfunded in relation to its targets. The current financial constraints in the public sector dictate that alternative funding models be implemented, including the mobilisation of private and development finance. The current economics of internet provision limits the ability of private sector firms to service sparsely populated or highly marginalised areas of the country. In many communities the current cost internet access is unaffordable. This perpetuates a digital divide which will exacerbate inequalities as economic and government activities increasingly become digitised.	Develop a sustainable national funding model to support household, public and community centre broadband access. Rationalise and streamline local and provincial government broadband and related ICT initiatives. Strengthen and simplify PPP arrangements, and enable the public sector to act as an anchor tenant for a sufficiently long period to amortise these investments. Consider a subsidy instrument to support private sector broadband roll out to areas and communities that cannot be addressed in the current model. A fund dedicated to accelerating internet access for under-served communities would be beneficial. For it to succeed, it would need to be properly resourced (by the state but also as the main service obligation in a spectrum award), effectively governed (ideally with private sector and DFI participation), and appropriately designed. The DCDT's proposed approach for the DDF is to be supported, in not delivering directly but instead facilitating in offering inter alia: incentives for de-risking private sector investments in rural areas and accelerating broadband delivery in peri-urban areas; demand-side schemes for subsidizing low-income consumers' communication costs; and innovative use of unlicensed spectrum (Wi-Fi, TV whitespace).

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

Accelerate the digitisation of government

WHY IS THIS IMPORTANT?	ACTION
While some progress has been made in recent years, the overall digitisation of government remains fragmented and generally limited. The Covid-19 pandemic period has starkly revealed that gap. The implementation of a government-wide digitisation programme including e-government, e-education, and e-health, e-policing and smart cities will have a positive effect on the quality of service delivery, reduce costs to households and firms, and allow better overall monitoring and accountability. Government as an anchor tenant can enable the provision of digital services for under-served individuals and communities. Such a programme could itself be a significant stimulus to the broader ICT sector as hardware and services will be required. The opportunities for skills development and employment of especially youth are significant.	Government must as a matter of urgency implement the National e-Strategy and e-Government Strategy and Roadmap approved by Cabinet in November 2017. The current institutional approaches are not yielding sufficient progress and require review and a determined commitment to capacity development. This would include a commitment to institutional stability, good governance, and appropriate capacitation in senior appointments. Transparent monitoring and evaluation of digital services in the public sector is needed. This requires clear role identification and approaches to ensure interoperability, and data sharing.

Migrate and release high-demand spectrum

WHY IS THIS IMPORTANT?	ACTION
The expansion of internet access – specifically mobile internet access – and concomitant services require additional spectrum. Especially newer technologies such as 5G requires additional spectrum in the 80-100MHz and 5G mid-bands. Additionally, low bands are also needed to support widespread coverage across urban, suburban and rural areas. The current limits on available spectrum inhibit competition and market growth as well as the ability to expand internet access to communities and marginalised areas.	Spectrum must be released in a manner that supports enhanced competition as well as universal access obligations. There is an urgent need to reconsider the proposed spectrum auction. The outcomes of the auction process are likely to entrench dominance and negatively impact on equitable coverage. Government has proposed the introduction of a Wholesale Open Access Network (WOAN) but competition might more easily be stimulated through stronger wholesale regulation and obligations tied to spectrum allocation and/or spectrum set-asides to encourage access by operators with less access to capital.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

Deepen the ICT skills base

WHY IS THIS IMPORTANT?	ACTION
Given the global trajectory towards a digitised economy, employment opportunities will increasingly require skills relevant to emerging digital technologies and related businesses. Currently South Africa ranks poorly in its ICT skills base, from school to professional level. There is deep nascent capability that has not yet translated into national capability.	Connect all schools by 2023, with supportive digital services in the school and in the cloud, and free WiFi to low-income households nearby. Support centres of excellence to innovate in digital teaching and learning methodology from school to PSET. ICT training needs to be core in teacher training curriculum and in ongoing professional development. Strengthen partnerships between vocational training and industry to ensure relevance of the curriculum and pathways into digital apprenticeships and workplace learning. Identify and address the causes of poor throughput of high-quality ICT graduates. Expand opportunities to unemployed youth to gain digital literacy and related vocational skills

Enable e-commerce, digital finance and digital entrepreneurship

WHY IS THIS IMPORTANT?	ACTION
	Reform digital finance regulatory systems enabling 'non-banks' to access the National Payment Systems. Strengthen the support to digital entrepreneurs, in relation to knowledge hubs, angel investing, incentives, and create a more enabling environment for the commercialisation of IP.

Strengthen partnerships to deliver on SA Connect

WHY IS THIS IMPORTANT?	ACTION
Globally, governments and regulators struggle to keep up with fast-moving digital trends and this is also so in South Africa. Meaningful standing partnerships and knowledge forums that engage government, business and other stakeholders in a focused practical manner, will be essential to ensuring relevance over time.	Leverage existing formations to strengthen public-private partnerships in design and delivery. Examples include: The Presidential Commission on 4IR (PC4IR) and/or the Public Private Growth Initiative (PPGI).

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

5.3.6 DYNAMISM IN EMPLOYMENT-GENERATING INDUSTRIES

a. Promoting employment creating sectors

Make more capital available for labour-absorbing investments

WHY IS THIS IMPORTANT?	ACTION
There is sufficient capital to achieve investment targets but raising capital for labour-intensive projects is challenging.	

Ease visa requirements

WHY IS THIS IMPORTANT?	ACTION
Facilitating the movement of people in and out of the country can stimulate economic activity. This should attend to regulatory requirements, as well as process efficiency.	Ease visa requirements for business, scarce skills and tourism and introduce e-visas. Focus on strategic markets.

Drive construction activity

WHY IS THIS IMPORTANT?	ACTION
Construction is a sector that can create jobs directly and in supplier industries	**Recommendations are found in section 5.3.3.**

Stimulate foreign demand, with immediate prioritisation of tourism

WHY IS THIS IMPORTANT?	ACTION
Expanding trade and tourism spurs demand and employment, stimulates local linkages, earns foreign exchange and reduces the current account deficit. Africa, China, and India are South Africa's biggest trade and investment growth opportunities. The immediate focus on China recognises its commitment to industrialisation and diversification in Africa. China is a fast-growing market for South Africa and is now our single- largest market. However, South Africa mostly exports iron ore. It is a good time to expand commitments to expand and diversify investment and trade.	Drive stimulation of foreign demand in areas where there is existing capacity that could expand employment, like tourism. The top focus should be to act with greater resolve to drive regional integration and promote trade and investment in Africa. A second top focus is a commitment to an enhanced set of targets for trade and investment with China. Committed action is required to ensure that tourism opens as soon as possible. **Immediate priorities for tourism** Urgently develop and/or align with efforts to introduce Covid-19 health passports along with expanded availability of rapid testing. Introduce a Covid-19 compliance rating system to attract customers and ensure their safety.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

WHY IS THIS IMPORTANT?	ACTION
Tourism has an immediate impact on direct and indirect employment, fills excess capacity, offers an opportunity for promoting local products and does not induce trade competition. International tourism had been relatively stagnant and not achieving potential, and then Covid-19 halted it completely. Ambitious targets for international arrivals should resume and be delivered with special focus on growing targeted markets in Africa, China, and India. The goal should be to create an additional 1.2 million jobs, directly and indirectly.	Ensure tourism capacity is sustained. Intensify marketing efforts to attract tourists from priority markets. Be ready with a regional tourism strategy that packages regional tourism destinations. This can increase the range of options available to tourists and generate scale economies in respect of intra-regional travel and transport logistics. It would also generate goodwill that could support the expansion of other forms of intra-regional trade and investment. Initially focus on immediate neighbours. Encourage domestic tourism

Mitigate urgent threats to industry and jobs caused by governance gaps

WHY IS THIS IMPORTANT?	ACTION
Manufacturing firms that have paid their electricity bills should be protected from cuts. Fruit exports are an important source of job creation. Phytosanitary and health standards are a requirement for market entry and often a tool of market protection. The industry needs support to accelerate exports.	Protect manufacturing from threat of electricity cuts. Identify municipalities with concentrations of manufacturing activity and with the most egregious outstanding payments to Eskom that are at threat of being cut off. Firms that paid their electricity bills should not be cut off where the municipality has not, in turn, paid Eskom. This poses a threat to an already fragile manufacturing sector. Immediately implement commitments to strengthening phytosanitary standards in respect of fruit exports. Strengthen DAFF's plant health capacity, including private sector secondments. Strengthen veterinary and other phytosanitary inspection systems to limit risks to other types of agricultural exports.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

b. Global trade

Align public sector performance indicators more explicitly with export performance

South Africa has lost global market share in almost all categories of both goods and services trade.	Review dtic targets to ensure they align with the NDP: growth in export volumes, growth in non-traditional exports, stimulation of local production, and expanded global market share in products with growth potential. Target South Africa's top ten priority value-added products for export. Reduce the number of priority export markets from the current 50 to 20. Start with the ten most important markets. Support with effective commercial diplomacy capacity and market-specific strategies.

Build capacity in critical areas that facilitate trade, such as standards-setting bodies (e.g. SABS), phytosanitary standards-setting and inspectorate, and veterinary controls

WHY IS THIS IMPORTANT?	ACTION
Weaknesses in standards setting and certification pose significant risk to agricultural exports, in particular. There have been numerous instances where the spread of pests and diseases are not contained and rapidly expand to other areas. Standards are still widely employed as non-tariff barriers to trade, notably in key export markets.	Urgently build capacity to participate more effectively in international standard setting bodies in industry (mandatory technical standards) and agriculture (sanitary and phytosanitary standards) to facilitate South African exports. Build domestic capacity to meet international standards and facilitate South African exports.

Increase focus on higher value services exports such as finance, insurance, professional business services and online-retail for Africa

WHY IS THIS IMPORTANT?	ACTION
Export growth in dynamic services is prioritised in the NDP but has not been afforded sufficient focus, resulting in a fall in South Africa's global market share. South Africa has strengths in these areas that are not being exploited, particularly within the region.	Develop targeted strategies for particular high-value services and align with appropriate markets. Focus on not more than five types of services and a limited number of markets. Identify and address regulatory barriers in key markets.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

Enhance focus on trade and investment within the region

WHY IS THIS IMPORTANT?	ACTION
South Africa has lost market share in SADC. AfCFTA provides an opportunity to leverage cost advantages against non-African competition over time. There needs to be a balanced approach that affords other countries in the region opportunities to benefit through integration in value chains and specialisation	Identify 100 products with the greatest potential for displacing non-regional suppliers. As tariff barriers are reduced, step up efforts for industrial policy co-ordination and collaboration with key African partners to build regional value chains under a 'Made in Africa' agenda.

Assist new exporters to get listed on foreign supplier databases

WHY IS THIS IMPORTANT?	ACTION
More cost-effective methods of export marketing, especially for smaller exporters, given Covid-19 limitations and trade missions.	Align support with a reduced number of priority markets.

Strengthen the impact of market access arrangements and strategy

WHY IS THIS IMPORTANT?	ACTION
A China business strategy is required, with full commitment to implementation. Significant opportunity due to strong political relations, China continues to grow, and demand is expanding for products South Africa makes. There are already agreements in place that commit to expanding and diversifying South African exports.	Develop a China Business Strategy to strengthen inward investment from China, access to the Chinese market, and a joint South Africa-China investment partnership in the region. Pursue a strategy for integration of regional value chains. Introduce an automated licensing system for key export documentation. Review border control procedures, plant and animal health standards, SPS & veterinary protocols.

Deepen skills for exporting

WHY IS THIS IMPORTANT?	ACTION
	Enable immigration if exporting (as with goods). Address tourism visa challenges especially in key global markets like China. Enhance BPO skills supply. Develop export skills for key exporting industries.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

Build cluster capability conducive to domestic linkages, including services

WHY IS THIS IMPORTANT?	ACTION
Work with 3-5 export clusters to develop a strategy. BPO cluster development is already underway and can offer support to it.	Drive a BPO Centre of Excellence. Establish and drive a Regional Financial Centre of Excellence. Implement 3-5 export cluster strategies.

Deepen commercial diplomatic presence & intelligence

WHY IS THIS IMPORTANT?	ACTION
South Africa spends about the global average on export marketing but the results are disappointing. A more effective strategy for export marketing is needed, especially in respect of priority markets. A key aspect of this needs to be an enhanced commercial and diplomatic presence in these markets that can facilitate trade and collect the necessary intelligence to support the growth in exports.	Strengthen commercial diplomatic presence in priority markets. This needs to encompass both the selection/recruitment and training of capable people with excellent knowledge and experience of the markets being targeted. Initial focus should be on China, SADC and other key African economies. Ensure that commercial diplomats are appropriately qualified and capacitated. This might be done in partnership with the private sector. Develop market intelligence systems that can identify and disseminate information relating to opportunities to local exporters.

Drive infrastructure that supports trade – particularly within the region.

WHY IS THIS IMPORTANT?	ACTION
There is policy commitment to regional infrastructure but it is not progressing. We need to understand why. Key obstacles include financial constraints, inappropriate financing models, complex intra- and intergovernmental co-ordination requirements, amongst others	Establish the Single Transport Economic Regulator (STER). Introduce market reforms in transport, particularly to involve private sector participation Fully implement the Trade Facilitation Agreement. To promote regional economic activity, facilitate border posts, transport links, co-ordinate strategic marketing of services, ensure co-ordination of track access charges across freight corridors. Market reforms in transport – private sector participation

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

c. Competition and access to market opportunity for dynamic small businesses

Leverage local corporate, public sector and state-owned entity procurement for localisation and SMME promotion

WHY IS THIS IMPORTANT?	ACTION
The 30-day payment ensures the availability of essential but hard-to-obtain working capital to smaller and medium-sized firms. Procurement should specifically be leveraged to promote local industry. Preference points for B-BBEE should not cause the displacement of provision by a local manufacturer by imports. This leverages the buying power of large private and public sector entities to deepen global market share and promote business entry. These commitments already exist but are not being meaningfully implemented.	Implement commitment to 30-day payment turnaround. The corporate sector and government should co-operate to make commitments on leveraging procurement, with agreed targets that will be jointly monitored. The approach should seek to develop local industries by providing longer term commitments (5 to 10 years) on quantities, spending and pricing so that local businesses are encouraged to make the necessary investments in capacity. These can be reviewed at intervals. From the side of government, a commitment should additionally be made to raise local procurement, without raising cost, make the procurement process more transparent to reduce potential corruption, and strengthen buyer-supplier relations and supplier development programmes. Currently, B-BEEE procurement gives preferential points to black-owned firms and may displace local producers where that black-owned firm is an importer. The approach should prioritise local producers. Assess compliance with existing preferential procurement rules and set-asides. Align preferences with local capacity that is threatened.

Shift focus of SMME support to promoting entrepreneurship and dynamism – particularly among black Africans – by adopting a 'life-cycle' approach

WHY IS THIS IMPORTANT?	ACTION
At present, support for small business development is not as effective as it could be. This is partly due to the marginalisation of SMMEs. An integrated 'life cycle' approach is required that assists in developing entrepreneurs and in promoting greater innovation of products that meet the needs of markets domestically and internationally, This integrated approach should seek to support people to graduate from informal businesses to formal micro-businesses and then to grow into small, medium and larger businesses that are competitive, innovative and employ larger numbers of people. Given financial and resource constraints, this more intensive and sustained approach may require the targeting of support to fewer businesses. These initiatives should be linked to other approaches discussed elsewhere, such as assisting new entrants to enter more concentrated sectors. Rapid expansion of access to the digital economy and stimulation of fintech would be transformative of the South African business landscape. Enabling informal traders to order online and warehouse could also transform township enterprises.	Create co-ordination mechanisms for implementation of the integrated approach. This will need to link the providers of skills development, finance, public procurement processes, export marketing, and mentorship programmes. Review the compliance burden of different sized enterprises (informal, micro, small, medium, large) and identify legislative changes that seek to match that burden to their capabilities. The objective should be to regularise all businesses. Pilot integrated support schemes in different nodes. Improve digital interfaces to facilitate migration to digital platforms where this makes sense. Rapidly expand access to digital networks to underserved urban areas (townships and public institutions).

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

Prioritise the effort to revitalise township and village economies

WHY IS THIS IMPORTANT?	ACTION
A critical strategy of Apartheid's Separate Development was to isolate populations by race groups, where black African townships were intended as dormitories to supply labour to white controlled commercial and industrial activities in the Central Business Districts. Entrepreneurship was specifically discouraged in the townships and there were no facilities, including those for business. When restrictions were loosened, blacks were restricted to specific trades and, to crown it all, the policy was one person one business. Manufacture and the formation of companies was specifically forbidden, just as blacks were also not allowed to get into many trades. In the rural areas there were no restrictions but, because of the nature of the areas, there could be no industries or commercial activity except trading shops, initially owned by whites in these areas. In any case, the promulgation of the Land Acts killed agriculture for blacks and thousands made their way to the so-called white areas to look for jobs. The creation of Bantustans saw the emergence of black inspired industrial and commercial development. However, it was suppressed by the border industries, which were white owned industries on the borders of the areas. It provided labour to blacks in these Bantustans but killed the black business activity in those areas.	There should be an intensive effort by Government to stimulate and accelerate economic activity by locals in the townships and villages. This will combat the rampant unemployment and poverty in these communities. This heightened economic activity must obviously conform to the industrialization, agriculture and agro-processing strategies by Government. This endogenous activity in these areas will contribute the higher national productivity and, more importantly the development of skills in these areas, more so for the youth. It also traps part of spending in these areas and there is a multiplier effect that leads to more economic activity. This not only reduces unemployment and poverty but, and more importantly, it enhances entrepreneurship in these areas.

Stabilise and deepen approach to promoting black empowerment

WHY IS THIS IMPORTANT?	ACTION
Ongoing and frequent changes to broad-based black economic empowerment (B-BBEE) in terms of legislation, regulations, requirements and policy pronouncements by several different departments and players results in uncertainty for companies, and the perception of shifting goal posts. By reducing the extent of changes over time, including possible changes (even if they do not materialise) would give clarity to companies on what is required. Upfront reporting requirements are important to ensure that companies are aware of how they are to be measured and to ensure that much-needed transformation takes place across the corporate landscape. The BEE codes need to be stabilised so that firms can arrange their businesses accordingly.	Government should stabilise its approach to transforming business ownership to offer greater certainty to related investments. Government must not only commit to BBBEE but must review and strengthen it so that it overcomes many of the market restraints that limit competition. For instance, Government must ensure that, in addition to DFIs sourcing finance from the market, also provide finance these SOEs with resources so that they meet their development mandates. Commitments from the corporate sector are required to drive deeper competition and better access to opportunities by historically disadvantaged individuals. BUSA's "Approach to Black Economic Transformation for Inclusive Growth" is a good starting point. Identify three highly concentrated sectors where there are no obvious scale advantages. Identify obstacles to entry and work to reducing/eliminating them. These efforts can combine skills development, access to finance, access to procurement processes, export marketing training and assistance – depending on specific barriers to entry.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

WHY IS THIS IMPORTANT?	ACTION
There is still limited access to opportunities for historically disadvantaged individuals, caused by high levels of concentration and limited competition and rivalry. Procurement can enable the growth of black-owned companies through improved supply chain development, building world-class capabilities and being part of global value chains. So can the active promotion of competition by authorities and by corporates themselves. This includes identifying the most concentrated sectors and the current obstacles to entry in those sectors. Focus on eliminating the most significant of these. Align skills development programmes with those sectors and provide additional support to new entrants.	This should include a shift from black economic empowerment (BEE) companies who are importers to greater levels of local production through the black industrialist programme. (See proposals on procurement above). The approach to land distribution needs to be resolved. Lack of clarity in respect of government's stance on property ownership is hindering investment across the board. This will severely undermine efforts to lift investment and therefore the achievement of NDP targets. Resolution on the Mining Charter and the MPRDA would unlock significant investment.

Ensure representation and reflection of small enterprises in all priority sector plans

WHY IS THIS IMPORTANT?	ACTION
Small enterprises do not have the same capacity to engage around policy issues as their larger counterparts. This places them at a disadvantage and results in the fragmentation of their representation, and in the dilution of their voices. It requires specific institutional support to address this. This includes representative structures and commitments to regular engagement as well as performance monitoring and evaluation systems that assess progress.	Ensure that small enterprises are represented in all priority sector plans (as determined by Cabinet) and that their views and issues are reflected in those plans. Evaluate priority sector plans to assess whether the needs of small enterprises are effectively incorporated. Establish a common and consistent basis, including key indicators, for monitoring, measuring and reporting on SE development and activity.

5.3.7 PUBLIC EMPLOYMENT

Chart public sector bargaining to sustainable result

WHY IS THIS IMPORTANT?	ACTION
Amongst the issues that need attention are that the remuneration of staff in the lower grades has raised the cost significantly above market-related rates. The result is that few are employed in the lower grades and yet are essential in support of service delivery. Additionally, attention is needed to ensure the right skill is in the right job.	Discussions to define a longer-range public personnel strategy should be initiated. This should aim at sustainable remuneration, better grading that enables staff to enter at the bottom layers, staffing structures aligned to delivery, and performance-linked benefits. This is likely to require a pact between the state, labour, and other stakeholders. A strategy is needed to frame sustainable remuneration setting, a better distribution of staffing to strengthen service delivery, and performance-linked benefits.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

WHY IS THIS IMPORTANT?	ACTION
Public sector remuneration has grown unsustainably, particularly in the context of a low-growth environment. It hinders the ability to hire staff to enhance service delivery. Public sector negotiations tend to be framed too close to the time that an agreement is needed. A clearer, longer-term strategy is needed to ultimately balance the trilemma of budget constraints, employment growth needed for service delivery, and public sector performance.	Government and labour via the PSBC to engage in strategic process to determine a path to sustainable public sector remuneration, performance, and staffing. This should result in a public sector pact. The next three-year agreement should be based on this strategic vision. All parties should engage professionally with clear mandates, and in the case of the state, one that is funded. **In the medium-term:** Review the grading system and associated pay scales. Review of organisational structures and associated staffing structures across the state

Expand public employment programmes related to community care-and related opportunities

WHY IS THIS IMPORTANT?	ACTION
The contribution of Public Employment Programmes needs to be dramatically enhanced and expanded. The current EPWP targets about 1.5 million work opportunities but tends to deliver only 70% of this target. The Presidency's recent proposal in respect of social employment proposes that the PEP be expanded significantly over the MTEF. Accordingly, the NDP target of two million work opportunities per annum should remain and can be achieved through both the existing EPWP as well as new social employment proposals. This would start to bring the scale of special employment programmes in line with the NDP's targets. This could cost an additional R3 billion in Year 1 and rise to an additional R15 billion in real terms by Year 5.	Expand the EPWP to achieve at least the current targets of 1.5 million work opportunities annually. Implement the new social employment proposals on new channels and models for delivering PEPs. Implement EPWP Phase 4 proposals. Establish the proposed Social Employment Fund and secure funding for the MTEF. Strengthen alignment with the Presidential Youth Employment Intervention (PYEI). **Medium-term:** Ramp up the participation rate to achieve a combined (EPWP and Social Employment) target of two million work opportunities by 2023. Secure the required funding allocation. Secure partnerships with NPOs and CBOs, and explore possible support mechanisms such social franchising models.

5.3.8 BUILDING A CAPABLE STATE

Create a skilled and professional public service

WHY IS THIS IMPORTANT?	ACTION
Getting the right person into the right job is critical to improving state capacity and building a capable state.	Restructure hiring processes to improve transparency, increase the likelihood of getting the best candidate for the job, and reduce political interference in these decisions. Implement the recommendations of the NDP with respect to the process to be used for the appointment of senior public servants – objective pre-selection of a pool of suitable candidates from which pool, one must be selected.

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

WHY IS THIS IMPORTANT?	ACTION
	Initially focus on department responsible for the delivery of key programmes, SOEs and organisations responsible for addressing corruption. Implement transparent and objective processes for disciplinary actions and dismissal of senior public servants to reduce political interference in these decisions. **Medium-term:** Amend the PSA to delegate authority for HR matters to the administrative head of department. Appoint an administrative head of the public service. **See section 5.3.7**

Stabilise the political-administrative interface

WHY IS THIS IMPORTANT?	ACTION
Excessive and negative political interference in operational management undermines good governance	More transparent planning, budgeting, and procurement processes will reduce opportunities for political interference. Administrative head of the public service empowered to investigate allegations of political interference made by public servants.

Improve the operation of the intergovernmental framework

WHY IS THIS IMPORTANT?	ACTION
Poor co-operation and co-ordination among the various spheres of government is undermining key initiatives and wasting state resources.	Given the lack of legislative remedies to enforce co-operation and co-ordination, the only remedy is decisive political leadership.

Transparent tender processes

WHY IS THIS IMPORTANT?	ACTION
Extensive evidence of corruption in tender processes requires that they be made as transparent as possible, in the effort to restore faith in governance and to ensure that public funds are well spent.	Implement open tender processes and transparency in procurement, focusing on areas of top risk. SOEs require special attention, with examples including Eskom's coal and Transnet's locomotive procurement. **Short-term:** Introduce open tender processes in top three SOEs (Eskom, Transnet, and Prasa) and top three departments by infrastructure spend. **Medium-term:** Implement open tender processes in next top five SOEs and all national departments

5 Proposals to stabilise and then accelerate towards Vision 2030 - *continued*

Strengthen municipal management and oversight institutions

WHY IS THIS IMPORTANT?	ACTION
Local government is key to the delivery of basic services and the maintenance of basic infrastructure. There are extensive improvements needed in the municipal system, and capable leadership will be a necessary foundation for their implementation. There are critical targets that can only be achieved by addressing local government capability, such as zoning, water use licence applications approvals, water and electricity distribution maintenance, road maintenance, safety and similar. Many cases of fraud and corruption are not fully investigated and/or prosecuted due to a shortage of municipal financial analysis skills. Municipal employees found guilty of fraud and corruption are routinely rehired. S139 is an existing and highly effective constitutional remedy for addressing serious financial problems but a lack of clarity on implementation processes has undermined its efficacy	COGTA's Back-to-Basics programme aims to strengthen governance and capacity at the municipal level. The municipalities with large populations and significant delivery challenges and/or debt arrears will be closely monitored to ensure execution of critical requirements. Some portion of municipal funding will require proven implementation. **These include:** • As a foundational goal, B2B calls for the top six posts (Municipal Manager, Finance, Infrastructure Corporate Services, Community development and Development Planning) vacancies to be filled by competent persons according to qualification and experience. The action therefore involves monitoring recruitment and selection of competent managers in Section 57 positions and enforcing compliance with MSA and National Treasury Regulations on competence requirements for these managers. • Ensure compulsory municipal utilisation of database on employees dismissed for misconduct, fraud, corruption and blacklisting. • Strengthen the collaboration with law enforcement agencies such as the Hawks, SIU, SARS regarding investigations and prosecutions of transgressors, and strengthen the capacity of these entities to investigate **Short-term:** Implement the proposals in the top 25 municipalities, with a two-year deadline for compliance. Deliver a visible report card on progress. Enforce compliance with National Treasury regulations on minimum competencies at top 75 municipalities, using the AGSA's powers under the new Audit Act to claim damages for irregular expenditure. AGSA to declare salaries paid to such employees as irregular expenditure. Increase the skills available to investigating units in respect of municipal finance. COGTA and National Treasury to establish processes and rules to improve the application of S139 of the Constitution.

Restore governance in the top infrastructure state-owned entities

WHY IS THIS IMPORTANT?	ACTION
Unless governance is restored in the top infrastructure state-owned entities, public infrastructure development targets cannot be met. By far the most urgent attention should be focused on Eskom, for which government has exposure of R300 billion. Concerns in respect of exposure further extend to SANRAL (R38 billion) and SAA (R20 billion). Concerns in relation to financial stability and service delivery would further extend focus to Transnet, PRASA, PetroSA and the water boards.	Establish objective and transparent staff appointment processes for SOEs. Fill all senior executive and board positions with suitable persons. Define an appropriate role for the state in oversight. Transparent procurement processes (open tenders). Clarity on public interest mandates. Focus on Eskom, Transnet and PRASA, plus other SOEs in critical condition such as SAA and the Land Bank. Regular progress reporting (every quarter). **Medium-term:** Extend it to the next five SOEs that play a mission critical role in development or that may be in critical condition and pose a threat to the nation's finances. **Review entire portfolio of SOEs.**

SECTION 6:

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Recommendations for Course Correction

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